GOLD FOR EUROPE

by

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FOREWORD TO THE ENGLISH EDITION

This book is written by a German, but it is written for Europeans. The English-speaking reader should not take offence if I lay stress, in particular, upon illustrating my arguments by reference to Germany. For they concern all who live in Europe or whose lives are affected by that continent.

My first argument is fundamentally that no artificial system of currency, however ingeniously elaborated, can operate internationally with efficiency. Currencies accepted internationally cannot be based upon juridical agreements the foundations of which remain exposed to all the influences of misery, mismanagement and arbitrary power. Money, to be internationally stable, must be based upon a commodity which, independent of governmental and economic influence, is in demand and accepted everywhere and at any time. Of such commodities, gold is the one that has best stood the test of time.

My second argument is that no currency—not even gold—can go on fulfilling its function in a country whose economy, in all its dealings with other countries, is not a balanced one.

The recovery of Europe will not be secured without the practical application of both these arguments. I have confined myself in this book to explaining them. To carry them out requires a corresponding economic policy. That policy must be a common, co-operative one. It is that policy which will have to decide whether the Atlantic comity of nations survives or perishes.

Hjalmar Schacht

PREFACE

All around us, countries affected by the war are continually trying to improve their economic situation by international negotiation. They do so not without success. Thus France has advanced some way towards stabilizing her finances and her currency. Britain carries on an heroic struggle for the recovery of her international position in economics and politics. Italy has reconstructed her sadly shattered economy. The Benelux countries are fighting for their economic equilibrium with the weapons of their customs policy.

All these trends have two things in common: the effort and initiative emanating from the afflicted countries themselves. What, in the face of this, is Germany doing? Germany is, of course, severely hampered by the restrictions imposed upon her by the Occupation. But Germans cannot be freed from these restrictions unless they themselves show just how they can and should be assisted. A merely passive attitude is of advantage neither to them nor to the Occupying Powers. The occupation is certainly a heavy burden, but heavy for both parties concerned. The Occupation Powers are certainly more powerful than the Germans themselves, but are they, for all that, more knowledgeable in German affairs?

The author of the following pages remains outside the present internal proceedings, without office but not without opinion. His suggestions make no claim to be exclusive. Even so, they may help to stimulate attempts by others—people who feel a responsibility,

not only as officials but also as private individuals—to co-operate in the economic development of Germany, Europe and the world.

It is better to make a proposal which is not wholly satisfactory than to make none at all. For even a suggestion which is far from perfect at first sight, can be fully and efficiently developed when applied in practice. Only a practical start, inspired by new ideas, will bring benefits. Planning and theories are by themselves of no more use than being resigned to existing conditions.

Bleckede, 1st September, 1949.

I

1. NO ECONOMY WITHOUT CURRENCY STANDARD

THE currency standard is one of the pillars of our modern economic life. Every process of production, every exchange of goods, every service depends upon it. Without currency the creation of productive investment capital in modern economy is impossible. The more complicated economic life becomes in its technique, the more important the currency—the only means by which the most diverse goods are made available at any time, and we are able to buy them. Without currency, consequently, a permanent increase in the standard of living is impossible. Money makes it possible to create capital, the creation of capital promotes material progress, and material progress is the basis of all forms of higher civilization.

Before the first World War, that is prior to 1914, the world enjoyed an efficient currency system in most countries engaged in international trade. There might be occasional disturbances in countries which were politically or economically mal-administered; and one remembers a few state bankruptcies connected with currency depreciation in several South American countries, Portugal and Greece. All these, however, were but minor and transient disturbances, resulting for the most part from bad financial policy. World commerce as a whole hardly suffered from these not very important set-backs.

In contrast to this golden age for world trade we have been living, ever since the first World War, under the permanent shadow of the currency problem. Already at the end of the first World War the currencies of a number of countries had depreciated considerably. Among them were some of the most important partners in world trade. We Germans are still feeling the shock with which the German inflation lasting from 1918 to 1923 struck us. Yet Great Britain and France, both of them victorious countries, likewise suffered by the depreciation of their currencies.

The decade following the dictated Treaty of Versailles gave rise to a whole series of attempts to re-establish healthy currency conditions everywhere in the stricken countries. But when, at the end of this decade, the greatest and most lasting economic crisis that world trade had ever known broke out, only then were the wrong methods shown up, which had in many cases been applied to the task. They were connected chiefly with the incorrect application of credit. Credit is one of the most delicate features of monetary and currency policy. Beneficial as credit, properly applied, can prove, it may be useless when applied in the wrong way or in the wrong place. The collapse of international credit following the economic crisis was sufficient to shatter once again the currency structure of many countries. Thenceforth began the disastrous attempts to direct economy by legal and administrative interference with the currency structure. Subsequently the second World War affected the currency conditions of nearly all international trading countries to the highest degree. To this day international financial politics have not recovered from that general fiasco.

As a result, all international trade is involved to-day in a permanent crisis which keeps all politicians and economists fighting for breath. Anyone who lived through those happy days before the first World War —when the international exchange of goods took place without friction under the free play of private enterprise, and when the state confined itself to a few general regulations—sees to-day with horror how governments labour in vain to restore international trade by a succession of regulations and interference. This continual government interference simply results in the damping down of all enterprise on the part of those engaged in trade. The efforts of businessmen, formerly concentrated solely on the organization of production and markets, are exhausted to-day largely in a struggle against state bureaucracies, who have to carry out the instructions of politicians. The main reason for these instructions are the confusion and insecurity which have arisen in the field of finance. Artificially established international finance relations, restrictions on the international exchange of payments, obstruction and prevention of international transfers of capital—all these deprive trade and production of any basis for recovery.

Thus, the first and most urgent task in any international economic reconstruction is the recovery of orderly financial relations. This does not need to be supported by any elaborate theoretical proofs. One glance about us shows us the reasons: a glance at the present struggle between "hard" and "soft" currency countries, which is now a subject of decisive importance in international politics. Or a glance at the contrast between Ostmarks and Westmarks in Berlin, which

is really tragic in its effect upon the conflict between Russia and the Allies. The fact that to-day only one of *the great Powers, the United States of America, possesses an absolutely "hard" currency, overshadows all international affairs.* Settled international currency conditions would be of really outstanding importance in obtaining and preserving universal peace.

It is therefore important to-day to draw the necessary conclusions from the historical experience of the last decades. When in 1924 the so-called Dawes Committee started to lend a helping hand in the reconstruction of German economy, on instructions from the Allied Powers, it realized that its first and most important task would be the re-establishment of an absolutely healthy German currency basis on which to build. One must read the story of the negotiations of those days again in order to realize how all the suggestions and intentions of the committee revolved round this one cardinal point over and over again. The committee felt rightly that everything else would be straightened out in the wake of the country's economic efforts, if only it succeeded in creating orderly currency conditions. It is disordered currency conditions above all which have made necessary the whole bureaucratic superstructure of modern business, and which paralyse our economic life. The recovery of well-ordered international currency conditions is therefore the decisive task before us.

The realization of this principle by the Dawes Committee was shared and expressed again by the Young Committee in 1929 in continuing the work of the Dawes Committee. The decisive measure adopted by the Young Committee was the creation of the Bank of

International Settlements at Basle. Our fickle and superficial generation easily forgets the work of its predecessors when making similar experiments to-day. The World Bank, created in 1947 at New York, was entrusted with the granting of loans to backward countries as its most important task, so that their development could be furthered by financial help. Precisely the same task had been given to the Bank of International Settlements when it was created at Basle. That bank was intended to make credits available to undeveloped or under-developed countries, so that they could secure from the industrial countries all the necessary equipment for the development of their natural resources. Thus at the same time they would become the customers of the war-damaged industrial countries which in turn would be assisted to that extent. Unfortunately this programme was never carried out. It is only one proof among many of the fact that ideas need a long time before they are transformed into acts, and that humanity learns less from good ideas than from bad experience.

Although the Bank of International Settlements did not become active in the sphere which had been provided for it, yet it accomplished brilliantly another task which it had been set by the Young Plan. This task lay in the sphere of currencies and shows how the Young Plan likewise considered the nursing of international currency conditions as the salient point of economic recovery. Within the Bank of International Settlements the issuing banks of the world's trading countries were combined. It served as a permanent meeting-place for the governors of the issuing banks, and for years took good care that the currency policy

of individual issuing banks did not operate in isolation, but in co-operation with others, and in the light of a permanent exchange of advance information. All such measures as were deemed necessary by the issuing banks, in the interest of well-ordered currency conditions, were not only discussed in common at Basle, but fostered by frequent mutual visits and common consultation in the capitals of the countries mainly concerned.

The close co-operation of the governors of the issuing banks achieved in this manner contributed largely to the consolidation of confidence in international currency policy during the second half of the 1920's. Beyond all political rivalry, this co-operation of the governors of the issuing banks had beneficial results. Everybody will be astonished to learn that during the whole of the second World War the representatives of the belligerent countries collaborated in their special field within the Bank of International Settlements, even while their countries were locked together in the bitterest military struggle. The Bank of International Settlements was the only oasis where peaceful collaboration never ceased. This fact deserves the greatest attention and one should remember it when thinking of future solutions for our economic problems.

Nor did the importance of well-ordered currency conditions for economic reconstruction, especially in Germany, escape the Occupation Powers, in whose hands responsibility for the economic and social state of the German people rests to-day. This is not the place to consider the reform of the German currency brought about by the Control Council in 1948. But

the mere fact that such a change was considered necessary before recovery of German economic life could be expected, is proof of the above contentions.

Had the currency policy of the Occupation Powers definitely solved its problem it would not have been necessary here to deal with German currency conditions at all, and we could confine ourselves to international conditions of this sort. Unfortunately that is not the case. While we attach no blame, no one can object to the statement that the reform of the German currency did not produce a final satisfactory solution. "So much remains to do." And it is not only in Germany that the currency question cries out for final solution. In all the leading countries of Europe and elsewhere we see energetic efforts being made to escape from complicated and unsafe currency conditions. We have only to mention France, Italy or the Argentine, or the drastic attempts whereby Great Britain is trying to "harden" the "soft" Sterling.

The fact that so far none of the countries mentioned has succeeded in creating permanently ordered currency conditions shows that the problem is extremely complicated and difficult. Furthermore, it shows that this question, topical and acute as it is, has so far remained unanswered by all the experts: whether the means hitherto applied are likely to bring us to the desired goal of a general international currency order. It is hardly an overstatement to say that scepticism prevails in respect of all the ways chosen so far. The problem cries out for a solution and the air is full of theories. But what we need is to be shown a practical course of action.

It may sound like heresy if we state in this connection

that Congresses and Parliaments are bad initiators, particularly in such matters as international finance. After the terrible misuse of personal authority which we Germans experienced to our horror, we are very much disposed to adopt the opposite extreme of collective consultation. But we should not forget that even in an international concert of nations a symphony is only achieved if a gifted person wields the baton. For the first time in history since the days of the Roman Empire we have a situation where one great Power is able to wield the baton over an orchestra of nations. It is a fortunate coincidence, and one of the first importance, that this great Power brings to this task not only the economic means, but also a sense of moral responsibility. That great Power will likewise have to take the lead in the question of international currencies, for it is upon well-ordered currency that a well-ordered economy is based, and without well-ordered economy there can be no welfare and no world peace.

2. NO INTERNATIONAL FINANCE WITHOUT GOLD

COUNTLESS learned books have been written about money and finance. I have read but few of them. Yet I have always found that everyone knows what money is and what is the chief meaning of currency. Money must be a value, so much in demand by everyone that he is prepared to exchange for it his goods at any time in everyday commercial transactions. Money must keep its value and must not lose it in the course of time. It must prove its worth.

The question, what kind of money best possesses the quality of preserving its value, in comparison with other goods, and in every place, is a favourite one with monetary and currency theorists. Since this book is not meant to be a learned dissertation, but merely proposes to deal with the most burning problems of present-day world economics, we can by-pass all theoretical discussions. But the question that remains paramount is whether money must be a material value, such as cowrie shells, millstones, cattle, grain, metals, etc., or whether it is possible to replace these by something without material value, founded upon the law and its institutions, such as a legal document or something similar. This problem results from the fact that all material money varies in value according to time and circumstances, just as do all other goods which, as money, it is meant to represent. Many theorists believe, therefore, that the permanent stability of money can better be secured by juridical agreements and legal

statutes. That is how all proposals for state money or bank money of a non-material nature arose.

Not only historical experience, but even simple reflection must make it clear, however, that institutions of human law promise to be shorter-lived than goods granted to us by God in His nature. Indeed, especially after the experiences of the last decades, it must be emphasized that mistrust of most countries' currencies to-day is the result of wanton interference with finance by state legislation. For many hundreds of years lack of confidence in the ability of the state to act justly and sensibly has never been so great as it is the world over to-day. Once again peace and justice are profoundly shaken, and both World Wars have reduced public morale to a point where state promises and pledges stand at a low level.

A few examples are sufficient to prove this as far as finance is concerned. For more than a century British currency was considered the safest. International sales contracts, even outside Britain, were often concluded in sterling. The rulers of all countries deposited their savings with the Bank of England. The pound sterling had a value of roughly seven grammes of gold. But one day the British Government took it into its head wantonly to reduce the value of the pound sterling to about four grammes of gold, and all who had sterling claims saw such parts of their property reduced by forty per cent. Thus did world confidence in the stability of the pound come to an end. If a government is permitted and able to alter wantonly the value of its currency, even for contractual obligations based upon that value, then it is clear that no one can have confidence in money based exclusively on Government legislation.

Before the first World War it was generally assumed as agreed that countries with a gold currency formed an obvious currency community based upon gold, and representing, so it seemed, an international gold currency. With the legal currency devaluations of the 'thirties it became evident that there was no common international gold currency but only a series of parallel national gold currencies. For while they were all tied to gold, and had this in common, each was free to change the degree of that tie when it appeared advantageous to do so. In other words, while there was a common gold standard there was no agreed gold parity. Thus it was possible to reduce the claims of foreign creditors in the currency of a debtor country by any desirable percentage without infringing international agreements.

Should it become possible—as we must hope—and a reality, that gold currency is re-established internationally, then it will be necessary, if confidence is to be strengthened, to create a contractual international obligation whereby every state tied to the gold standard would be free to alter its gold parity, yet bound to its word to fulfil all international credit and business contracts previously concluded, in the same parity in which they were contracted.

Here is another example, from Germany's most recent past, of the lack of confidence in state manipulated currencies. On 20th June, 1948, the Occupation Powers decreed that paper money then in circulation must be devalued to a new level. It was decreed arbitrarily that henceforth ten Reichmarks would be one Deutschemark. People could draw on part of their thus reduced deposits immediately, and part would be

made available to them later on. But only a few months elapsed before this other part was once more arbitrarily, and in spite of their promise, curtailed by the Occupation Powers. Does anybody believe that such measures are the proper means for creating confidence in currencies which the state can arbitrarily alter according to its politics, to a change of party, or to considerations of utility? It goes without saying that the inflation brought about by Hitler through the unlimited printing of banknotes belongs to the same category.

All other theoretical proposals for an allegedly completely stable state currency are just as misguided. That applies, e.g. to the so-called Index Currency whereby one tries to create money whose value is supposed to remain in a stable relation to the average value of all other goods. Apart from the fact that it is quite impossible to calculate such an average value for all other goods, this Index Currency is in practice no different from material money confronting the ever-changing average price index of all other goods; with the difference, however, that he who has money is aware of the change sooner than the arithmetician who must calculate *ex post facto* his average from the prices of all other goods. Even more ridiculous is the proposal for a so-called Labour Currency, which purports to establish the value of one hour of human labour as a unit of currency. Who can compare the value of the work done in an hour by a mechanical engineer with that done by a manual worker in the course of an hour? The theory of so-called shrinking money is no less harmful. This seeks to compel everyone to get rid of his money within a prearranged period.

Against such arbitrary and artificial money structures must be set the historical, indubitable fact, that for thousands of years certain material goods have prevailed quite naturally, especially precious metals, gold and silver equally at first, and then gold above all in the course of time. With all peoples and at all times gold has always been a welcome means of exchange, and it was possible to acquire all other goods in current commercial use with gold long before rulers and governments took control of the monetary system by legal measures. It was nothing but the completion of a natural historical development when, at the beginning of the nineteenth century Great Britain, as the first among the world's trading nations, based her currency on gold by legal decision. Thenceforth gold currencies triumped all over the world, and many countries engaged in international commerce followed the example of Britain's gold currency in the course of the last century. One often hears the famous quotation from Goethe's *Faust* regarding the creation of paper money. There, by a stroke of the Emperor's pen, money is created. But one should remember that Goethe already referred to the gold basis of money in the lines:

Hier liegt gesichert, als gewisses Pfand,
Unzahl vergrab'nen Guts in Kaiser's Land.

which means:

Here lies secured, and as a safe forfeit,
Enormous buried goods in Emperor's soil.

It goes without saying that even gold as a material com-

modity is subject to changes in value. This was particularly obvious when of a sudden great new goldfields were opened up, or when there was considerable change in the costs of gold mining. Even so, however, it is astonishing that such fundamental and sudden increases in the production of gold, as, for example, the discovery of the Californian goldfields in the forties and the South African goldfields in the eighties of the last century, did not bring about such price revolutions as might have been prophesied by theorists. In judging of such dangers one forgets that gold is not a monetary basis only, and does not serve monetary purposes exclusively. Gold is welcomed to an even greater extent by the jeweller and the artist-craftsman. Nearly one-third of the world's gold production found its way, and still does so to-day, into industrial, not monetary, uses. The cheaper gold becomes through increased production, the more it flows into industry. Furthermore, the gold increase gave many countries, which as yet had not adopted the gold standard, the opportunity to do so, a fact which opened up a larger monetary field of activity to the newly won gold. Both these factors act, to-day as well, as buffers against too sudden a change in the value of gold.

A third buffer exists when gold is used for minting coins which people like to carry about in their pockets. When after the first World War the German Reichsbank began to call in gold coins, it was found that almost two thousand million marks came from the pockets of the people. It is no less interesting to note that there are serious people in Switzerland to-day urging the minting of gold coins again. In any case alterations in the value of gold take place relatively

slowly, so that the economic system can adapt itself to them. The value of gold never alters as easily as that of a state currency affected by government policy and political changes, such as has happened in the past and must be reckoned with in the future as well.

There is a final consideration which decides absolutely in favour of a gold currency. Gold has a monetary value which is equally appreciated and accepted by all nations throughout the world. It is quite impossible to create money in one state which is appreciated and accepted equally by all nations engaged in international trade. Nor is there any chance of a legally created world currency by international agreement. So long as the absolute sovereignty of individual states exists, the creation of an artificial world currency is quite impossible. But gold is already a currency universally accepted throughout the world. However the money of any particular state may be created, it is always measured in terms of gold.

When after the first World War the re-establishment of orderly currency relations was everywhere sought, it was considered self-evident that this could and should be effected only on a gold basis. When in 1923 Germany tried by herself to put an end to the inflation by introducing a new currency, this was not achieved by means of the "Rye Mark" proposed by Helfferich, since rye with its short-term price fluctuation could not possibly be considered as a currency basis. And when, instead of the Rye Mark, the adoption of the Rentenmark was suggested (a currency based upon the value of land and estate), the Rentenmark was not confined to that security but given a gold value identical with that held by the Reichsmark before the

inflation. It is time now to dispose finally of the legend of the Rentenmark, for, regarded as currency, the Rentenmark was an impossible fabrication. It was never legal currency. The Reichsmark of the Reichsbank remained the legal currency of the country, and was exchangeable into Rentenmarks in the ratio of one for one. Its banknotes after the devaluation were once more based on gold.

Even before the new German currency was created in November, 1923, wholesale trade in Germany had long based prices and contracts on gold; even the Reich itself, so as to fulfil its fiscal needs, had resorted during the inflation to levying certain taxes in gold. Furthermore, it offered a loan for subscription not in marks but in American gold dollars. Interest coupons and small units of that loan very soon circulated in place of banknotes. Furthermore, trade and commerce, whenever and wherever they could do so, made themselves independent of the paper currency which was manipulated by the state and steadily losing value. They took refuge in gold.

Governments are powerless against the influence of gold upon commerce and trade. It was no arbitrary decision which led to a gold currency, but human nature. Preference for gold, which made it the material basis for currency, caused it to outlive all governmental currency decrees, and ended in the disregard of such decrees when they did not take gold into account. There are many currencies in this world, and in each country the man-in-the-street is calculating in his own national currency. But world commerce is calculating exclusively in those currencies whose relation to gold has been stabilized and maintained. To-day that

currency is above all the American gold dollar. Whatever currencies are offered for goods in world trade, all are measured in terms of the dollar, because it is the essential currency possessing a firm gold parity. In all large-scale transactions, even within individual countries, we calculate in the last resort not in local currencies, but willy-nilly we compare them with the dollar. We think in terms of gold whether we want to or not.

3. NO STABLE CURRENCY WITHOUT BALANCE OF PAYMENTS

It is a popular belief that no country can afford a gold currency if it does not possess gold. This is correct only within very narrow limits. For the introduction of a gold currency it is of course necessary to have available an adequate supply of monetary gold; but the fact alone that even such countries as possess no gold have to value their currencies in terms of gold, is proof that the relevant feature is not the supply of gold but the realization that every currency can and must be valued internationally in terms of gold.

It does not ultimately matter whether a banknote can be exchanged at any time for an equivalent amount of gold, but whether one can acquire with that banknote as many goods as one could with an equivalent amount of gold. Freeing currencies from gold—so often acclaimed, especially under National Socialism—has been accomplished only in so far as an economy can be continued in an orderly and balanced way with a currency measured in terms of gold, though there is no gold reserve behind it.

There were numerous reasons for holding gold reserves at issuing banks. First, the business world's confidence in the issued banknotes was strengthened, when a gold currency was introduced, and when it was known that a gold reserve equivalent to part or the whole of the note issue was deposited in the vaults of the issuing bank. The obligation to honour these notes in gold, which was imposed on the issuing banks,

was likewise probably first devised as a means to strengthen confidence. Furthermore, it was designed to prevent the excessive issuing of notes and creation of money, which to-day is called inflation. So long as the banks had to hold a gold reserve sufficient to cover a fixed percentage of notes, the note issue could not be arbitrarily increased when gold was lacking.

Another reason for the accumulation of gold stocks at issuing banks was the facility with which temporary, seasonal fluctuations in international exchange could be offset by the transfer of gold. The balance was thereby restored, but when gold was lacking and credit was not available for the purpose, the currency in question was depreciated abroad in a way expressed by the so-called exchange rates. Consequently these exchange rates became one of the most important yardsticks for measuring the international value of any currency. The so-called automatism of gold played a special part in this process. Whenever the exchange rates showed a weakening in a particular currency, the issuing bank concerned would increase its rate of interest so as to attract foreign currencies or capital thereby. The influx of foreign capital balanced the deficiency in foreign money, and the equilibrium of the currency re-established itself.

All these considerations, which have applied ever since the introduction of gold currencies, have proved sound in times of orderly international trade. They were the rules of the game evolved during a long peaceful period of development in international trade. Everyone was satisfied so long as international exchange and payments were supported by confidence and equal mutual contributions, and they were not disturbed by

catastrophes. The catastrophe of the two World Wars has brought the whole problem of currencies to the fore once again. The established rules of the game disappeared. The obligation to honour banknotes in gold exists to-day in hardly any country. The obligation to secure a gold covering has been abolished in most countries. The automatism of gold was overthrown by a permanent crisis in world confidence and the lack of any equilibrium in international commerce. The only thing which survived—and this emphasizes all the more poignantly the importance of a gold currency—was the fact that all prices and currencies are measured in terms of gold to-day throughout the world, as much as they ever were before. Apart from this, the ways and means of preserving a gold currency were fundamentally altered by the experiences of the two World Wars.

The reason for this was the enormous reparations payments inflicted upon the vanquished nations. Until then normal exchange in international trade had operated in such a way that each country's contribution was balanced by that of another. That is to say, contributions to abroad were balanced approximately by contributions from abroad. When reparations payments were inflicted upon the vanquished countries, they were forced to make payments abroad without receiving anything in exchange. Had this been done to an extent not exceeding such a country's net foreign assets, then it would not have had a detrimental effect upon currency. Had the reparations payments inflicted upon Germany been confined to her giving up part of her foreign investments, or such sums as could have been realized by increased sale of German goods abroad, the

whole scheme would have been feasible. Reparations inflicted by Germany upon France in 1871 were kept within these limits. The burden of reparations placed on Germany in 1920 exceeded them by far.

Thus, for the first time, a currency problem came to the fore which was till then unknown, and which has since become familiar as the Transfer Problem. This problem has to do with the transforming of the currency of one country into that of another country. A gold currency easily solves the problem, for a quantity of gold, whether minted in sovereigns, dollars or marks, is at once accepted in all three countries at the value of its weight in gold. This is not so with any other kind of currency, especially paper currencies.

This may be the place to make an observation which the layman has difficulty in understanding, though it is one of the greatest importance. Whenever lack of money or capital is mentioned to-day, many people cry out for foreign loans; but in doing so they overlook the fact that foreign money is not the money of their country, and that transforming foreign money into their own money—this precisely is the Transfer Problem—is fraught with the greatest difficulties. They forget that one cannot spend dollars unless in America, pounds sterling unless in sterling countries, marks unless in Germany. Currency is one of the strongest pillars of a national economy. The responsibility which every government incurs through its currency policy, makes it impossible for any country to put its currency, or any share in its regulation, at the disposal of another country whose financial and economic policy it does not control. Every currency is tied and limited to the country of its origin.

This fundamental point means that there are only two ways of exploiting a dollar: either by buying goods in America, or by paying off debts—existing, or to b contracted—in America. The current practice whereby in Germany, for instance, one can at any time exchange a dollar for marks at one's bank, must not conceal the fact that in the last resort this dollar can only be acquired by someone who can spend it in one or other of these two ways. We shall have to refer to this Transfer Problem more than once. At present it is sufficient to state that while gold is a means of payment applicable to all countries, banknotes, or other kinds of paper or minted money, do not possess this quality.

The currency problem is without much importance in a country that is not bound by obligations to make payments abroad, and which takes no part in international trade, or, if it does, acts as a purveyor solely and not as a buyer. If such autarkic nations existed excluding themselves from international trade, then their currencies at home could easily be regulated by government decrees. Russia to-day may serve as an example. The currency problem remains a burning one, however, for all countries linked together through international trade and dependent upon it. This proves that the system by which payments abroad are made is a decisive factor in the stability of a currency. Such a currency is not threatened so long as debits and credits abroad are balanced. As soon as the balance loses its equilibrium the currency problem arises. Already we have seen that this equilibrium can be disturbed by the infliction of one-sided political demands for payment. But it is clear that, even in the course of ordinary economic relations between countries, disturbances can

arise if one country buys more goods and services from other countries than it provides them with itself. Excessive imports and insufficient exports contribute just as much to disturbing currency as one-sided political demands for payment.

All considerations of this nature culminate in one salient point: for the stability of currencies a correct balance of payments is imperative. Having recognized this fact, the basis for currency policy is completely removed from such factors as predominated in the old, classical books from which we learnt. These laid stress upon an orderly economic policy, on the success of which the currency policy depended. We thus have the complex phenomenon that a currency policy, without an economic policy parallel with it, is impossible. Neither can be carried out in isolation from the other; and it is a correct theory that the policy of issuing banks should be co-ordinated much more closely with the Ministry of Economics of a country than with its Ministry of Finance.

Germany had to experience, to her great hurt, and is still experiencing, the consequences resulting for a country when the co-ordination outlined above is not clearly recognized. The reparations claims after the first World War brought German economy to the edge of the abyss. It took twelve years before the reparations claims were cancelled at long last. One cannot emphasize too strongly the far-sightedness of such economists as Maynard Keynes, who even at the start of the reparations discussions, predicted that their fulfilment was economically impossible. Reparations, that is, one-sided payments for services, can only be extracted from a country if one is prepared to accept as payment goods

delivered by that debtor country, or if one exploits the manpower of a debtor country as forced labour. The victorious powers of the Versailles Treaty rejected the former because goods delivered by Germany competed with their own production. The second method is exploited to-day by Russia because she can use German goods and the products of German labour. But it may put an end to this kind of reparations services likewise, one day, when Russia discovers that slave-labour is not only questionable politically but also uneconomical.

4. BALANCE OF PAYMENTS BY WAY OF CREDIT

EVEN under normal conditions the balance of payments could not be in perfect equilibrium all the time. That is nothing new, for a large part of the international exchange of goods is seasonal, and many industrial products require a lapse of time between their being ordered and delivered. Between the importing of raw materials from abroad and the dispatching of finished goods there is often a lapse of many months. But these periods of time are transitional and can easily be bridged by taking up credits. In times of normal trading this bridging by credit is done by international banking, in particular by "Reimbursement" or "Revolving" credits. This means the granting of credit to which there can be no objection, and which adapts itself easily to the normal flow of international business.

This bridging by credit becomes more difficult, however, when it is used to tide over payments covering more extended lapses of time. Such cases have occurred in history, and still occur everywhere, when the sources of production have to be tapped in primitive or partially developed countries by providing them with apparatus, machinery, means of transport, etc. An undeveloped country cannot acquire these, of course, by immediate cash payment. In this case the "bridging" often extending over many years in the balance of payments, is usually made possible through long term loans. The trustworthiness of such loans regard-

ing the rate of interest they carry, and the orderly budgeting of the debtor country, is of significance for those subscribing to the loans.

The history of modern economic development teaches us that precisely this kind of international credit has been of far-reaching importance for the economic progress of the world. We need only mention the many South American countries whose industry could be developed only through the granting of such loans by European industrial countries. The procedure was one whereby the country concerned obtained a long-term credit by means of loans with which it created ports, railways, mines, and other means of production and transport, and through which in turn payment of interest and the amortization of such loans could be made, as a result of slowly increasing production, itself the result of investment in such capital goods. With the exception of a few misplaced investments, this system of loans and credits proved itself a brilliant success, and increased the production of foodstuffs and industrial raw materials in all undeveloped countries of the world to such an extent that it resulted in an increased and improved standard of living for the peoples of debtor and creditor countries alike. Nowhere did credit prove itself as beneficial to humanity as in this sphere. However, it is a condition of the success of such credit operations that the economy upon which they are based works normally and successfully. As a rule this is the case in both long and short-term credits as shown.

Quite a different situation arises, however, when one-sided payments are imposed, as was particularly the case with Germany after the first World War. Had

the conquering nations been content after the first World War with confiscating Germany's surplus credits abroad—as, in fact, was done—and perhaps a further range of annual payments equal to the surplus of German exports over imports, then the monstrous economic disruption which we witnessed after the first World War would never have taken place. Because this did not happen, and reparations were inflicted on Germany exceeding by far her credit and trade surplus, and because all political powers pressed for payment irrespective of this fact, Germans resorted to foreign credit to enable them to make these payments. This credit was not backed, however, by any prospect of an economic balance. It did not serve to promote German exports, but to pay reparations almost to its full amount. It was particularly objectionable that the creditors were political governments which received payments out of credits granted to Germany by private foreign individuals. Thus, in particular, capitalists in America handed over, by way of credit, moneys which were requisitioned by British, French and other Allied governments for their political drafts upon Germany. Looking back afterwards on this fools' game of transforming political into private debts, one cannot but have the gravest scruples regarding this exploitation of economic usages for political purposes. Germans alone cannot be held responsible for this system, which was forced upon them.

After the consequences of this false policy had taken shape, people began to try harder to understand what was going on. It is an established fact that those responsible for the management of the German issuing bank never ceased to draw attention to the

dangers of an all too far reaching drawing on foreign funds, almost from the start, viz. immediately after, and even before, the first loan in 1924, the so-called Dawes loan, had been granted. Such drawing was justified if the money were used to acquire raw materials to be fashioned into and re-exported as finished products, or for the reconstruction of foreign trade and transport whose profits could be cashed in foreign currency. As early as May, 1924, at a meeting of the *Hansabund* (The Hanseatic League in Hamburg), before the Dawes Plan had been established, I insisted, as Governor of the Reichsbank, that foreign loans could reasonably be accepted only by those who could repay them in foreign currency. Again at Karlsruhe in October, 1925, I explained to an audience composed of economists and members of the Government, that the new foreign loans would put a terrible strain on German economy, because payment of the interest they carried would make for a permanent deterioration in Germany's balance of payments. Again in January, 1926, the Reichsbank requested the Government to limit foreign loans, and in October of that year, I explained in great detail before a Parliamentary finance and loans sub-committee, the dangers connected with the acceptance of foreign credits.

I explained thoroughly the problem of the equilibrium in the balance of payments at Bochum in November, 1927, thereby attracting the particularly bitter enmity of the Socialists, because my argument was opposed to the free and easy way in which they spent this foreign money. My report was characteristically headed "Our own currency or a borrowed one?" It said, among other things, "Our particular situation

arises from the fact that the balance of payments is maintained not merely by the strength of our surplus production but by the help of foreign credits as well. This in itself does not amount to disaster. If a country is stripped of liquid capital to an extent such as Germany is undergoing, as the result of war and inflation, it is fully justifiable and only natural to accept credit during a transitional period, as is normal in ordinary business. But one must bear in mind that the equilibrium of our balance of payments is not established for the future through such acceptance of credits, and thus the final reckoning is merely delayed. It cannot be delayed for ever. How long it can be delayed depends above all on the goodwill of the creditors, and thus on the question whether the interest and amortization payments on the credits granted can be raised by the national economy in such a way that they can be transferred to the creditors in foreign currency. One might suppose that for some time the interest and amortization payments on existing credits can be paid out of fresh credits. But inevitably there will come a time when these credits, together with the interest and amortization they carry, must be paid off out of our own means. This implies that one can accept responsibility for foreign credits only in so far as they serve to stimulate home production and enable it to provide a capital surplus in the form of savings."

These early exhortations of mine, which I afterwards continued undaunted, are mentioned here in detail, because later on, when her incapacity to pay was discovered, Germany was reproached by foreign countries. But all these warnings had been given publicly by the Reichsbank at home and abroad and

could be heard everywhere. It may be indicated at this juncture, that the responsibility for the failure of credit transactions does not always lie with the debtor alone, but also to a great extent with the creditors. This is particularly true in the case of such enterprises as make the issue of credit their professional business. Naturally the debtor sees the chances of making repayment in as rosy a light as possible. All the more is it the creditor's duty to examine in turn, and with as much care as possible, the chances of repayment of such credits. It can be stated to-day as a fact now fully realized that many of Germany's foreign creditors neglected to do so in the past.

This does not diminish the responsibility of German enterprise, especially the banks and the German Government. A committee, entrusted by the Bank of International Settlements in Basle in the summer of 1931 with the examination of Germany's foreign debts, calculated that Germany had received in the six years from 1924 to 1930 roughly 18,000,000,000 Reichsmarks in foreign credits. Of this amount, according to the Basle report, 10,300,000,000 were extracted from Germany in war reparations, while the remainder was exploited for investment and consumption, in particular by public bodies. Their use for purposes of consumption or investment, when equivalent funds could have been raised at home for the same purpose, was highly questionable. Such a serious economist, research worker and teacher, as Adolf Weber, wrote in 1947, in his book *Money, Banks and Stock Exchanges*, "Greater even than the sins of private economy was the economic carelessness, after the stabilization of the currency, of public bodies. Regardless of the great

scarcity of capital, they squandered funds wastefully. If the expenditure of public bodies be represented by the index figure 100 in 1924, then this figure rose to 124 in 1925, 156.7 in 1927, and 185 in 1930."

Since, as we have already seen, a dollar can only be spent in America, that part of the loans which was not used for government payments, necessarily tended to increase buying of foreign goods abroad. In fact German imports reached their highest level after the war in 1930, and included a large increase of imported finished goods, such as could have been manufactured in Germany, or which the German people could or should have gone without. In this way living "on tick" from abroad contributed greatly to unemployment in Germany. The more finished goods flowed in from abroad, the more difficult did the situation become for those who were manufacturing the same goods in Germany. During those years the banks played a particularly doubtful role, inasmuch as they borrowed at short term from foreign banks and invested equivalent amounts in credits at home, since long-term credits were not available to them as banks.

Things developed in Austria much in the same way as they did in Germany ; in the spring of 1931 the catastrophe started when the Austrian Kreditanstalt was unable to repay its short-term foreign credits which had been called in. In the autumn of 1929 an attempt to refloat the Austrian Bodenkreditanstalt, a large building society, had met with the greatest difficulties for the same reasons. The crisis in international confidence, which began with the calling in of all foreign short-term credits in Austria, spread to

Germany and brought about the German cessation of payments to foreign countries in mid-July, 1931.

It may be that German public opinion disregarded so sadly the dangers of foreign credits—partly even did not see, or did not want to see them—because up to a point the problem was wrongly handled by the economists themselves. Regarding the question of the balance of payments with foreign countries, economists relied upon a theory similar to that accepted in the automatism of gold in respect of the currency question. What kind of a theory this was is best shown by a polemical attack carried on by Dr. George Stolper, editor of the *German Economist*, Democrat Member of the Reichstag, and a highly respected economist, against a member of the Right Wing, the Conservative Dr. Quaatz, who had given warning of the catastrophe which was bound to arise with the sudden calling in of foreign credits. To him Stolper replied: "To begin with, the mechanism of interest would start to operate so that a rise in the rate of interest would redirect the flow of gold, at least partly, into Germany. But even should this mechanism fail completely, there would result—long before the circulation of German banknotes had sunk to zero, and even before the restriction of credits would have halved the circulation of banknotes—a tremendous fall in prices in Germany, irrespective of Dr. Quaatz's very complicated theory according to which deflation provokes a rise in prices. The consequences would be an enormous increase in exports and such a rapid fall in imports that the stream of foreign currency directed into Germany would permit the repayment of loans called in, and the payment of reparations and interest."

This was propounded on 20th February, 1931. Three months later the financial crash set in, and in the course of six weeks made all the theories of the *German Economist* look ridiculous. One may overlook the fact that this journal did not appreciate the supposed halving of the banknote circulation as a catastrophe, or the colossal fall in prices, and the rapid contraction of imports (though in themselves they would have constituted a catastrophe); but far more important was the fact that increasing the bank rate of interest—the Reichsbank raised the discount rate to 15 per cent.—by no means brought about the results expected, i.e. redirecting the stream of gold into Germany, or provoking a colossal increase in her exports. Just the opposite took place. Confidence in Germany's economic and financial situation was so rapidly reversed that no bank rate of interest, however high, would have tempted anyone to transfer money to Germany, or even leave it there. All such cleverly conceived economic theories might be applicable to normal conditions cemented by a long lasting peace; but war, and fear of war, fear of political terror, etc., soon overthrow all theories.

Though it is true that the whole crisis of the balance of payments in 1931 was mainly provoked by one-sided political demands, yet the situation would have remained more tolerable and probably curable, had not international trade itself just then taken a most unsatisfactory turn. The more payments were inflicted on Germany, the more foreign currency did she have to find, and the more energetically did she have to try to spread her products over the world's markets in order to earn foreign currency with which to make payments

abroad. This pressure of German exports was felt all the more keenly by other industrial nations as the world's market had been showing a trend towards a slump ever since the autumn of 1929. Industrial countries competing with Germany were irritated by German competition, not only in other markets, but even in their home markets where German imports were becoming a nuisance. Consequently very soon a growing resistance to German exports set in, first by way of raising customs and tariffs, and soon by more drastic measures such as quotas, discrimination and so forth. Everywhere German exports encountered the strongest barriers, and in some parts of the world even a complete embargo on sales.

That, together with the cessation of German payments, considerably aggravated the world crisis and provoked a further decline in confidence. In some foreign countries the proceeds from German exports began to be confiscated and used for the payment of interest on loans owed by Germany. Thus the whole system of international trade took on a new aspect, for Germany could not be expected to export without receiving anything in exchange. She had to devise new methods of foreign trade to secure her imports of raw materials and foodstuffs, since, as an industrial country, she was dependent upon them. Later on we must dwell on this new development of trade policy. At this point we must once more emphasize the fact that each new foreign credit that is not ultimately settled in the normal way by business transactions abroad, is a great danger to currency.

Disregarding this fact, attempts made abroad to overcome the world crisis which arose in 1930 did not

make for a re-establishment of normal international exchange of goods through an international trade policy, but, to begin with, took the false step of influencing trade policy from the monetary angle. The devaluation which came about in consequence of the war, under pressure of chaotic economic circumstances, had resulted in a bad example being given by countries with devalued currencies, in that they found an easier market for their goods, being cheaper, than those countries which still retained a stable currency. This, however, was to the disadvantage of home consumers, especially the great mass of the workers, since a devalued currency entailed a diminution of purchasing power at home as well. Even so, the economic policy of a number of countries embarked upon the devaluation of their own currencies, intentionally and according to plan, so as to reduce their export prices in the world's markets, without heeding the fact that essential imports of raw materials became more expensive. Currency policy was thus made to serve trade policy instead of inversely trade policy serving currency policy.

Naturally such a widespread dumping of goods through devaluation was not taken lying down by countries competing in the world's markets. Britain's example in devaluing in September, 1931, was followed, not only by a whole string of European countries, but also, and above all, by the economically powerful United States of America. In this manner the promotion of exports which was the purpose of devaluation was very soon slowed down. For there is no sense in one country devaluing if its competitors do the same. Those countries which devalued did not

improve their economic situation. The world crisis was not overcome.

In this connection it is useful to recall the various devaluations of that time. In the summer of 1931, in step with Great Britain, most of her Dominions and Colonies, all Scandinavia, Portugal, Egypt, Iraq, Japan, Mexico and Bolivia, devalued. In the next year Greece, Jugoslavia, Hungary, Siam, Chile, Peru and Ecuador, followed suit. Devaluation by the United States in April, 1933, was followed by nearly all Latin American countries, and in the next two years Belgium, France, Italy, the Netherlands, Rumania, Switzerland, China, Iran and Manchuria, did the same. It is astonishing to learn once more to-day of devaluations in Britain and elsewhere, if one remembers the vicious circle outlined above.

It must be repeated over and over again that currency serves only to establish the exchange of goods and capital on as safe and lasting a basis as possible, and to secure it—not, however, to influence by artificial manipulation prices, wages, debts and such like things, by affecting their value.

The more and the longer world trade failed to recover and a balance of imports and exports was lacking, the more widespread was the net of legal decrees made necessary for the defence of currency. When it became impossible to make payments due abroad because gold reserves and foreign currency had been exhausted or because the volume of exports was insufficient, there was still the possibility of selling one's own currency abroad at a cut rate. This was the path the German Reichsmark had to take after the first World War, since it was impossible to close the frontier to the ex-

portation of mark notes. Now, at the opening of the 1930's, a thickly woven net of legal prescriptions and decrees was spread to prevent the export of currency, regulate foreign currency transactions, and thus at least secure one's own currency at home. Not only in Germany was this done, but in nearly all countries engaged in international commerce. To-day we have a multi-coloured range of currencies supported neither by gold nor by a natural equilibrium in the balance of trade and payments, but relying exclusively on restrictions and regulations and a draconian legislation where foreign trade and foreign payments are concerned. Unless these innumerable transfer regulations existing in nearly every country are abolished, the rebuilding of international trade and a growing exchange of goods and services will become impossible. The abolition of currency and exchange restrictions must be the first task of any policy aiming at the reconstruction and revival of world trade.

5. BALANCE OF PAYMENTS BY BILATERAL TREATIES

GERMANY did not follow Britain, France, the United States and other countries in devaluing. There were above all two reasons why she did not devalue, apart from the psychological effect which devaluation would have had on the German people, already frightened by inflation. Germany is a country largely dependent on imported foodstuffs and raw materials. More than 20 per cent. of her foreign trade consisted of vital imports which had to be brought into the country at all costs if German economic life was to survive. This created, then as to-day, a particularly difficult situation for Germany. Devaluation of the German mark would have meant raising the prices of these imports; the lower the value of the mark, the more marks must be paid for imported goods.

The second reason why Germany avoided devaluation was the exceedingly heavy debt she had contracted in foreign currency. At the beginning of the 'thirties Germany's total foreign trading debt amounted to roughly 25,000,000,000 marks. It was not payable in marks, however, but in foreign currencies. In consequence of the devaluation by her creditors, America, Britain, France, etc., this debt was automatically reduced in proportion to the devaluation. Had Germany devalued at the same time, her foreign debt would have remained at the former level. It was chiefly for these two reasons that Germany kept up the previous parity of the mark.

She found another way out, therefore, to secure her imports while yet maintaining an equilibrium in her balance of payments. To begin with, she reduced her current payments to foreign countries by making arrangements with her creditors abroad after the collapse of her currency in the summer of 1931, extending the amortization of her debts over a long period, and reducing her payments of interest and amortization on short- and long-term credits. This, however, was of little benefit as regards the current balance of payments. Germany had to secure her regular, essential imports by keeping up the volume of her exports to a corresponding extent, irrespective of all trade barriers opposed by foreign countries. Consequently Germany inaugurated a new kind of trade policy by abandoning the most-favoured nation clause, appearing in nearly all commercial treaties, and concluding instead bilateral agreements with individual countries for the mutual exchange of goods. This bilateral trading system was based upon a simple conception: Germany entered into trading agreements with such countries as were able and willing to deliver the goods needed by Germany, and accept payment for them in German goods, once sales in the international markets fell to a level insufficient to secure foreign currency necessary for buying in the world's markets.

This system of bilateral trading was gladly accepted by countries concerned when it was introduced; for these countries likewise—above all producers of agrarian goods and raw materials—suffered by the crisis in the world's markets. Now a market was opened to them which they could supply as "priority purveyors". Other countries engaged in international

trade, industrial countries in particular, which were competing with Germany, took this German system of bilateral trading as a grave injury to their interests, since part of the world's markets was debarred to them by this method.

Such criticism of the bilateral trading system must be answered by the fact that it did not result from a theory or an intrigue specially devised, but asserted itself of necessity. For the difficulties encountered by Germany in consequence of reparations payments inflicted upon her and the subsequent obstacles placed in the way of her commercial policy abroad (the raising of customs tariffs, the quota system, etc.) made it quite impossible for her to secure an equilibrium in her balance of payments even to the extent which was imperative for her vital requirements in foodstuffs and raw materials. The fact that no malice or political finesse lay at the bottom of it is best proved by stating that after the conclusion of the second World War a whole row of countries resorted to such bilateral trading agreements in the same manner, because a revival of the world's markets under the old rules of the most-favoured nation clause could not be effected. Great Britain is to-day in the forefront of those who share in this bilateral trading policy—Great Britain, once the protagonist of the most-favoured nation clause. She has concluded a bilateral trading treaty with the Argentine, to last no less than five years. It is obvious that such treaties create severe obstacles and restrictions hampering the reintroduction of multilateral world trade. They are practically unavoidable having regard to the necessities of the time, but they prove all the more forcibly the absolute need for a return to

multilateral world trade such as existed before the two World Wars.

Germany cannot even be reproached with having been the first country to embark upon a bilateral trading policy. She had a forerunner in Soviet Russia, which had nationalized the whole of her foreign trade. The bulk purchases of certain raw materials by the Allied Powers tended in the same direction, such as, for example, when Britain bought up the whole of Egypt's cotton crop during the second World War. Here too we see that economic necessity fathers such undesirable innovations in economic policy; in fact one can hardly take too seriously the revolution brought about by the war in respect of all our economic experiences.

The bilateral trading system is particularly undesirable because it automatically leads to the over-riding of trade by state bureaucracy. It thus operates in parallel with restrictions on foreign currencies and transfers, and propagates a misconceived form of socialism in all international trade. This misunderstood socialism seeks to replace individual thought and effort (from which every man expects his proper reward), by a bureaucracy acting according to prescribed and more or less automatic rules, and remunerated by fixed Civil Service salaries which ignore the merits of the individual. Currency and exchange restrictions require a permanent bureaucratic control in practically every branch of economic affairs. A bilateral trading system requires similar control. It is possible for people to make do for a time with such a system, and the present political trend throughout the world appears to be tending towards it. But we must rid ourselves of the

methods which economic needs have forced us to adopt —needs for which we have to thank only policies of war and nationalist rivalry between states. Socialism should be something quite different to administration by a collective bureaucratic Civil Service. Advancement in technology, economics and social welfare can only be assured if we revive individual effort with the material and moral success resulting from it.

Furthermore, a bilateral trading system is undesirable because it leads necessarily to a restricted exchange of goods, since it is concerned only with such goods as are indispensable. The bilateral trading system tends to reduce economic standards to their lowest level. It does not provoke an all-round expansion of consumption for the ever newly created products of industry in demand. It must confine itself naturally and of necessity to a range of indispensable goods because it is impervious to the manifold opportunities of the world's markets for the absorption of new goods. Thus the bilateral trading system, just like the bureaucracy in a Socialist state, tends to reduce individual demand for newly created consumer goods, which are themselves the very fruits of progress and civilization.

6. THE GERMAN PROBLEM: KERNEL OF THE WORLD CRISIS

It is no presumption on our part if we state that the German economic problem is the nucleus of the present economic crisis. The world recognized the far-reaching importance of Germany, both as a producer and a consumer in international trade, only after this field of economic activity had been destroyed. They felt like people at a funeral who become aware too late of the proficiency of the deceased. We have but to visualize the appreciation, gained in all countries benefiting from them, of German patents, inventions, and scientific discoveries, which were confiscated after the second World War. We have but to recall the astonishment which struck the simple soldiers of the victorious armies when, entering into German homes, they realized the standard of living reached by the German worker. A practical form of Socialism in Germany had accomplished more than that which was even aimed by hypothetical political programmes laid down in other countries. All this could have been realized even after the first World War. For when, in 1930, the crisis fell upon a fictitious prosperity founded on foreign loans, which till then had concealed the economic disaster created by the war, one learned what it meant to prevent seventy million German consumers with a high standard of living, from having their share in a wide range of goods in the world's markets. Three hundred million Indians and four hundred million Chinese certainly promise a good market in the future,

but it will take many years before these countries can reach a level of consumption such as seventy million Germans had attained before the first World War.

This book is not meant to be concerned with questions of a general political nature. It must confine itself to the framework of economics and finance. Even so, we must state that the impositions laid upon the German economy in the form of the Versailles reparations (originally fixed by the treaty at 120,000,000,000 Reichsmarks) was the heaviest blow that could be dealt to world trade. This first mistake was followed by a second: the mischievous, exaggerated granting of foreign credits, sufficient to conceal for a time the disturbance in world trade, but at no time able to solve the problem itself. Credit implies the mere postponement of the final solution, never the final solution itself.

Thus, the question arises in all its gravity and awfulness, whether we have learnt now, after the second World War, from the experiences of the first. One thing is certain: the fact that the German problem is the central and cardinal point in international economic policy. This fact has not been altered by the second World War. In one respect the victorious powers have become more reserved, inasmuch as they take care to avoid any definite commitment in their economic and financial policies towards Germany. We shall not dwell upon the dangerous psychological and political burden resulting from the denial of liberty and the thralldom of the German people living in these conditions. For here again we are only concerned with economic and financial consequences. But this much is clear; the present state of suspension in which Germany

finds herself gives rise to new problems of a grave nature.

A people that does not know in which direction it is heading and to what purpose it is working, will hardly make the economic efforts necessary for the revival of world trade. It is clear that mere slave-labour, such as the Germans are to-day engaged in for the Russians in the Eastern Zone, will never end in economically satisfactory results. The longer Germany is without its sovereignty in the economic field, the longer will a revival of the world's economy be delayed, because German energies in her own sphere of action will be lacking.

For it is precisely this sphere of action which Germany's neighbours depend upon to a large extent. Belgium and Holland, the Scandinavian countries, Italy and the Balkans, benefited in the highest degree from the prosperous development of Germany's economy. The administrative tutelage exercised to-day by the Occupation Powers in Germany involves them in difficulties—even though the costs of the occupation have, theoretically, to be met by the Germans themselves—and burdens them with inconveniences which have an adverse effect on their own economies likewise. Moreover, the fact that Germany is now less able than ever to balance her essential imports of raw materials and foodstuffs by her exports, through insufficient production—this fact has the grotesque consequence of compelling the victorious powers to make up the deficiency out of their own Treasuries. It is but small consolation for the other Allied Powers that the main share in this transaction falls to the United States, for this same burden laid

upon the United States itself affects America's political relations with her allies.

The idea of a partial extermination of the German people and its reduction to a humble race of peasants and shepherds (which was advanced in the early days when feelings of revenge and fear first showed themselves) could not endure for long in the conscience of any who had a sense of historical responsibility. Thus the Hoover Plan forcibly awakened understanding for the fact that one cannot alter the course followed by a highly developed industrial nation such as Germany. Rather must a solution be found which will enable it to continue along this course in a peaceful manner. It was with regard to this aim that the high-minded and thoughtful Marshall Plan was elaborated, so that it provided for the re-establishment of industry in Germany. It is not seemly for a German to discuss the question whether all of the eighteen countries drawing upon Marshall Aid, were, and still are, in need of its help to the same degree and with the same urgency. But it can be stated that the funds provided by the Marshall Plan were exploited (and still are) in widely different ways by the various countries in receipt of them.

For Germany the question is more important, whether or not the result aimed at will have been accomplished (the equilibrium of her balance of payments when the Marshall Plan expires). No economist can answer "yes" to that question with a fair conscience. For irrespective of the fact that Germany's economy is burdened to-day (and will be for an appreciable time to come) with the obligation of paying for the Occupation, and regardless of the question what

exports must be handed over as reparations, Germany cannot be expected to show an equilibrium in her balance of payments by 1952, even should we eliminate these two factors from our reckoning. Whoever insists otherwise deceives both himself and others. And this fact cannot be considered too soon or too clearly if a new catastrophe is to be avoided. The discussion constantly renewed in the American Senate and Congress makes it abundantly clear that despite their appreciation of the purpose and administration of the Marshall Plan—correct in principle—doubts remain as to whether its eventual fulfilment will in fact bring a solution. The Marshall Plan is no panacea, but it has had the very great advantage of momentarily bridging a difficult situation and securing time for us in which to devise plans and measures for a final solution. It would be a childish illusion to expect the continuation of financial support under the Marshall Plan for an unlimited period after the end of the first four years.

It is understandable that the Americans should worry about the consequences of the Marshall Plan; but it would be even more understandable for Germans to worry in the same way, for they are the party most concerned. Night and day the leading German economists and financiers should ponder the following questions: First, are Marshall Aid funds granted to Germany being properly exploited, so that when eventually they cease, an equilibrium in Germany's balance of payments can be expected? Second, what must be done, should this goal not be attainable when Marshall Aid comes to an end? It is undoubtedly a sign of serious neglect on the part of the Germans that there are few traces of public discussion of this

subject in Germany, and none whatsoever of proposals for a solution such as is postulated here. A nation which can have no higher aim than the recovery of its sovereignty must find means and ways of assuring for itself its economic life. Questions regarding the constitution and administration are often useful, but questions about economics are vital. The more we assist the Western Powers with suggestions, proposals and economic ideas, the more we try to regain our responsibility in this way, the sooner will it be possible to regain our freedom as a nation.

7. GERMANY'S LACK OF CAPITAL

There is a very great difference in the economic field between Germany after the first World War and Germany as she is to-day. The 1914–18 war scarcely touched her territory, and destruction in Germany was unimportant. Thus Germany entered the post-war period in 1918 with her means of production out-distanced in many respects by other countries, but in the main still intact. While the peace dictated at Versailles deprived her of all her liquid assets, such as foreign investments, bonds, money and goods for the major part, yet her productive potential remained almost untouched. This was why Germany in the ten years between 1920 and 1930 attained once more, with comparative speed, an economic position which could have brought about an equilibrium in the balance of payments, had politics at home and abroad taken heed of the necessity.

To-day, after the second World War, Germany's situation is completely different. Not only have all her liquid assets, funds, etc., been taken, but her productive machinery has been destroyed to an unimaginable extent. Both air attacks and artillery destroyed all large-scale plants, and above all those of the so-called heavy industries—the basic industries. To repair this damage, not only is finance required, as it was after the first World War, but capital investment, needed for the reconstruction of plants and machinery. How to secure capital for that purpose thus becomes the first problem of German economy, especially since the

amount involved is larger by far than that required after the first World War. While American imports ensured the feeding of the German people—an act of humanity for which eternal gratitude is due—the problem of how to raise the capital with which to re-start German industry has remained unsolved. For the attempt to re-start production by means of a revaluation of the German currency was bound to fail, since not only did it create no fresh capital, but, on the contrary, destroyed existing working capital. Low wages, illegal trading on the black market in contravention of authority and the law, and the vast amount of currency in circulation, which had swollen during the war, were sufficient inducement to interfere with the currency. But however understandable this may appear, such a currency operation could merely cure the symptoms while the evil was rooted elsewhere—as it happened in the obstructed mechanism of production. Faced with the civilian demand for goods, held back during the war but enormously increased through destructions and expulsions, production by the surviving industries was quite insufficient. Consequently it was at first necessary to ration industrial consumer goods in the same way as foodstuffs, and maximum prices had to be enforced. The more stringent this rationing and quota system became, the greater was the turn-over in the black market. It was believed possible to reduce it, even eliminate it, by a cut in the currency. This led to the so-called currency reform in the summer of 1948.

While there has been a certain decline in the black market, nobody is yet able to prove that this decline has been brought about by the cut in the currency.

For this cut served to justify the derationing of a whole range of goods and their freeing from prices fixed up to then. In this way goods became available which had been held back because of the low prices imposed on them by decree—goods which, in simple language, had been hoarded. But this development would have taken place in the same way had the freedom of the market been widened and the play of prices loosened without cutting down the currency. It makes no difference whether I pay 150 old marks or fifteen new ones for a pound of butter. The mere astronomical height of a figure is irrelevant. If not, similar measures would be necessary in a country like France, where that necessity does not arise, though France likewise complains about the astronomical figure of currency in circulation. The black market plays a much smaller part in France because there the supply of goods for the upkeep of the people is so much more plentiful. In Germany likewise the increase in production in the three years between May, 1945, and June, 1948, though slow, has made it possible for the people to be better provided with the ordinary goods for daily consumption. These goods did not enter the market in consequence of the devaluation, however, but because rationing had been partly abolished and greater freedom allowed in price-fixing.

One could perhaps say that the cut in the currency, if bringing no advantage, at least did no damage. But to this also a question mark may be added. To begin with, devaluation completely obliterated a whole range of money assets. On top of this it is probable that, without the devaluation, the people would have adapted themselves more easily to the freer play of

prices. If one had, without interfering with the circulation of money, loosened rationing step by step, and permitted a free play of prices, wages would have accommodated themselves in conformity with it. Thus consumption and production would have slowly adapted themselves to one another, instead of their being an abrupt change-over of prices and incomes which ruined whole sections of the population, deprived enterprise of its working capital, and provided hoarders of goods with enormous profits.

The situation was furthermore aggravated in that the devaluation provided people with a cash quota *per capita*, which incited them to over-hasty buying of consumer goods regardless of prices, still high at that moment. In this way consumption was financed without making provision for a corresponding increase in production. This is why now the cry for investment capital drowns all other demands on the German economy. Lack of capital paralyses the economic system. Production slackens and becomes less profitable. And this in turn diminishes the possibility of financing enterprise and investing in new productive plants out of surplus and savings, which anyhow can only be created slowly.

The cry for credit grows all the more strident. Credit for investment purposes is a long-term proposition. It is clear that the commercial banks cannot grant such credit. The responsible heads of the issuing bank are certainly justified in keeping under control and within limits the creation of money and credits by the banks in general. Where this is done to excess (and even though the banks in granting long-term credits for investment must bear the blame), it recoils upon the

head of the issuing bank in times of economic stress and plunges it into difficulties which it ought at all costs to avoid. This too applies to the policy of savings banks and provincial banks, while building societies, formerly so active, are condemned to inactivity to-day for lack of capital and a market for their bonds.

The policy of the issuing bank labours to-day under the unpleasant necessity of having to control the circulation of money (in a totally impoverished country crying out for investment capital), in such a way that inflation cannot arise from the currency angle. It will always have to face the reproach of not giving assistance, although by its very nature it is incapable of tackling the heart of the problem on its own—the securing of long-term capital. Moreover, confidence in the existing currency is still not sufficiently established, so that the comparatively rapid circulation of money resulting from it considerably increases the danger of inflation.

Since, therefore, sufficient accumulation of capital within the country is not to be contemplated, all eyes are once more turned to foreign countries. This raises a new dilemma. The very nature of Germany's economy depends on the importation of raw materials and foodstuffs from abroad. But should Germany now import investment goods—machinery, apparatus, means of transport, etc.—in the same way? Or perhaps goods for immediate consumption which she herself could and should produce at home? We put the question irrespective of how the Allied Occupation Powers would react to it. The argument starts with the assumption that the Occupation Powers really intend to stabilize German industry on a level which will enable her to secure an equilibrium in her balance of

payments by means of exports when Marshall Aid ceases. Here we must lay aside all contemporary criticisms of the Occupation bureaucracy in the field of economic policy, because we start from the further assumption that they result from misunderstanding and never from lack of goodwill.

The dilemma consists in the fact that all imports of investment goods increase Germany's foreign debt, and thus make for more pressure in the direction of industrial exports, which we know to be unwelcome to the very powers which could provide Germany with investment goods. This argument should lead to the conclusion that Germany should be given every chance to produce herself the investment goods she needs, i.e. she should be left with a greater capacity to produce iron, steel, coal, timber, and so forth, at least for the time being. Whether, later on, when the balance of payments has been stabilized, limits should be set, is a question that might well be left to the political development of the future. It is incomprehensible, however, that basic industries should be restricted at the present time when we consider these problems.

But even should Germany be permitted to create all her capital goods, she would still need capital investment for them. And quite apart from essential industrial capital, large amounts are also needed for rebuilding and housing, indispensable for the decent living conditions of the workers. Four precious years have passed without anything worth while being done for the creation of such capital.

One can hardly avoid a sneer when reading the reports that are published from time to time of an increase in production, allegedly proved by statistics.

The same applies to the amount of capital which, it is alleged, will be forthcoming in the near future for investment—amounts which would have to be used under the direction of the Occupation Powers. All such statistics must be read with the greatest scepticism. For it needs no statistics, but merely a simple appreciation of the economic situation, to realize that German production is far behind what it was in the past; that there is a pitiful need for housing; and that the standard of living, apart from a few favoured exceptions, has sunk to a level never reached before. The same scepticism is called for when we read of the huge capital sums allegedly available for housing in the near future. Apart from the fact that state spending is permanently on the increase, one should not overlook the fact that a reduction in the Occupation costs, even if it is intended, will always be difficult so long as amounts easy to confiscate—e.g. from the sale of imported Marshall Aid goods—are simply asking to be confiscated.

As against all such hopes and speculations the fact exists that unemployment is on the increase, bankruptcies and receiverships are mounting, transport of persons and goods is decreasing, and the few facilities, offered by the issuing bank by way of banking credits, are quite insufficient for the recovery of economic life. Bigger and more creative ideas are needed.

In conclusion of all that has been said before, we are confronted with the stupendous task of securing long-term capital in considerable quantities for German industry. This cannot be done merely by increasing the German paper currency, without danger of inflation. We cannot as yet foresee a time when such

amounts as are necessary will be forthcoming from other sources at home—on the one hand, because of the small surplus of production and the reduced scale of present-day German industry, and on the other, because taxation takes away so much of that surplus, in consequence of an inflated bureaucracy, that this alone prevents the accumulation of capital.

Thus, the only sources of capital available are foreign. But here all the difficulties already mentioned arise once more: the problems of exchange, the increased imports of finished goods, the mounting foreign debt. Consequently we must be determined not to ask for foreign capital except when strictly necessary, but to produce our investment goods for ourselves in so far as we can; to spread the repayment over a long period; to make possible the export of finished goods in order to secure foreign currency; and above all to make the transfer possible in such a way that foreign money lent to us can be exploited within the country itself.

The following proposals are in no wise meant to offer the perfect solution to this problem. They are merely intended to give food for thought by suggesting whether, in a situation such as the present one, it is possible to apply measures which have perhaps never hitherto been propounded in the literature of economics, yet promise success if sensibly applied. At all events, at this time of most bitter need for Germany's economic life, one must fall back on the old proverbs "Necessity is the mother of invention" and "Needs must, when the devil drives".

II

8. NOT EVERY CREATION OF MONEY LEADS TO INFLATION

We must start by discarding the theory that an increase of capital cannot be brought about by the creation of money. History shows that the sequence work-capital-money is a natural one. More work, more capital, more money. But we are no longer living under the natural conditions of a pre-capitalist, technically undeveloped economy. We have constructed a technically complex economic apparatus which can be influenced in both directions by the human will. From time to time we destroy this apparatus through war and economic excess. Then we have to rebuild and restore it again by peaceful and systematic activity. Just as capital and money can be secured by way of work, so capital and work can be secured by way of money: more money—more capital—more work.

Indeed we have to fight against confusing the two notions, money and capital, over and over again. Money is not capital, but it can be transformed into capital at any time. That is why money and capital are always confused when laymen talk economics. This confusion is in particular due to the fact that in modern economics the securing of capital, whether as savings, credit, or shareholdings, is achieved, in nearly every case, through the channel of money. This is one of the main reasons for the development of modern banking, in which the accumulation of capital almost exclusively

takes the form of money. In just the same way the attraction of foreign capital, for whatever purposes of investment, nearly always takes the form of money in banks, whether through accepting deposits or the sale of shares, bonds and the like.

In all cases mentioned above capital is secured through the surplus available in the economic system, which has accumulated temporarily in the form of money. Every treatise on money and banking shows how in times of large trade surpluses there is a tendency to transform the money which has accumulated into capital by means of fresh investment. This process keeps pace continuously with the ups and downs of business, and sometimes may strongly affect these fluctuations. In this way a surplus of money is always absorbed by capital investment. If once more we put aside all theoretical considerations about the relation of plentiful, cheap money to high prices for goods, and vice versa, we can concentrate our attention upon the single fact that the amount of money in circulation is always in a fixed ratio to the turnover of goods. The so-called quantitative theory, which is concerned with the relation between money and the quantity of goods in circulation, is of importance in assessing the value of money at any given time. This is usually now expressed by saying that, in order for the value of money to remain as stable as possible, the amount of money in circulation must stand in a correctly balanced ratio to the quantity of goods.

Thus the amount of money in circulation is never the same, but varies according to the size of the turnover in goods. In other words, when business is lively, and when the quantity of goods for sale increases, the

amount of money in circulation increases likewise. In times of economic depression it decreases in proportion to the reduced circulation of goods. An increase in the volume of money in circulation proportionate to an increase in the circulation of goods by no means spells inflation. On the contrary, should an increase in the turnover in goods be unaccompanied by an increase in the volume of money in circulation, then the value of money would rise unduly, and the reverse would also hold good. It should therefore be the aim of all currency policy of the issuing bank to develop as stable a relation as possible between the value of money and that of goods, without any considerable fluctuation, with an upward or downward trend. An increase in the volume of money in circulation, accompanied by an increase in the turnover in goods, by no means signifies inflation, and it makes no difference which of them acts as a stimulus if both operate simultaneously. Fundamentally every credit means inflation; for it puts a larger volume of capital into the field than had previously been in operation.

When in 1933 Germany was concerned with the abolition of unemployment (the figure was six and a half million), the question arose whether it would be possible to revive business, and thereby effect a widening of credit policy for the unemployed. Considerations of currency policy were based on the fact that, although at this moment of economic depression the turnover in goods would not justify the credits to be created, yet this turnover would increase so rapidly and to such an extent that the balance between the quantity of money and goods in circulation, although temporarily disturbed, would once more be restored to equilibrium.

This assumption was buttressed by a simple theoretical consideration. The statutes of the German issuing bank provided, like most other issuing banks, that banknotes issued should always be covered up to a point by commercial bills. Should the economic depression be allowed to continue, then it was possible that the number of commercial bills received would decrease to such an extent that the banknote circulation would decrease in like manner, and thus there would be another movement towards depression. The whole automatism of the banknote system laid down by classical economists was found to be in contradiction to the real process of economic evolution. One simply could not leave a whole nation's economy without financial and currency supply, merely because a previous currency theory had contrived such an "automatism". That is why the Reichsbank disregarded traditional theory and spurred on production, by granting credit in the form of newly created money, in a broadminded way. Its success proved that it was right. There was no question of any inflationary effect, for the quantity of goods increased so rapidly that it was equivalent to the increased volume of money put into circulation.

This treatise does not purport to expound the history of the abolition of unemployment through the policy of the Reichsbank during the period 1933 to 1935. That must be done elsewhere. Only one more point should be stressed, which is of considerable importance for this present study as well. When bills of exchange were created for the revival of employment, and later became known as *Offawechsel*, *Mefowechsel*, etc., the Reichsbank did not take by any means all

these bills into its keeping. In the course of five years the total value of the *Mefowechsel* reached a peak of 12,000,000,000 Reichsmarks. But never more than half this amount, and often much less, flowed into the coffers of the Reichsbank, while the remainder circulated in commerce and was accepted there.

This last fact was entirely due to the decision of the Reichsbank to offer to discount at any time bills which were drawn with the purpose of creating work for the unemployed. Thus whoever held such particular bills of exchange could get ready cash from the Reichsbank at any time, and could consequently invest his liquid cash in these bills, which bore interest. Further it is important to note that the mere promise of the Reichsbank was sufficient to direct considerable commercial funds into these bills, the aim of which was to revive employment. A very important contribution to the defeat of unemployment had thus been made in business circles, without any excessive increase in the note-circulation of the Reichsbank.

In this way the currency was protected from the dangers of inflation, and kept intact during the whole period in which these bills, designed to promote employment, were in circulation. It was only disrupted by Hitler's insane war. The success of the Reichsbank's policy, however, resulted in an uninterrupted increase in receipts from taxes and tariffs between 1933 and 1938, which finally reached the figure of 10,000,000,000 Reichsmarks a year. Had a peaceful economic policy been continued, there would have been no difficulty in the amortization of these bills.

Two conclusions may be drawn from these facts. On the one hand, it does not automatically follow that

every new creation of credit, and every increase in the circulation of money, must have inflationary results. If the creation of money gives rise to a rapid increase in the volume of goods, the increase in one is compensated by that of the other. On the other hand, the mere assurance of the issuing bank that money would be granted against these bills to trade when required, offered such security to producers that they could reduce their liquid capital reserves, and in fact dispense with them altogether. And so it was possible to devote all available money to production and its increase.

9. AMERICA AND THE BANK OF INTERNATIONAL SETTLEMENTS

WHEN the Bank of International Settlements was founded at Basle in 1930 in connection with the Young Plan, its supreme direction was placed in American hands, and later on, well into the war years, an American banker was still to be found at its head. Everything points therefore to this bank being made the intermediary, at a time when America is trying once more to re-integrate European currencies into an international system of payments.

It is clear that if such a task is to be fulfilled in the present political state of affairs two conditions are necessary. The Allies must be sure that there will be no re-emergence of the danger of war in Germany; and Germany's industrial competition in the world's markets must not lead to political friction. It would be wrong for Germans to feel that these two conditions insultingly discriminated against them; they deceive themselves with their conception of national pride and sovereignty.

Viewed impartially, the danger of war does not exist in some allegedly evil design on the part of Germany, but in the fact that Germany is an overpopulated, all too confined area—an over-charged boiler that is bound to explode if left without a safety-valve. Once a safety-valve is supplied this danger disappears; but only the Allies can supply it. To-day the attempt to regulate imports, exports, production and consumption, one by one, is made with the thumbscrew methods

of an uneasy Occupation bureaucracy. J.E.I.A., the dismantling of plants, banking prescriptions, allocation of calories and the like, are throttling co-operative German initiative. Hundreds of thousands of brains and hands in Germany would become active were they but shown a field where they could be absorbed into economic development. It should be possible to arrange for this by agreement with the Allies.

There has been much discussion on whether the exchange rate of the German mark in relation to the dollar and other currencies, fixed by the Allies, should be higher or lower. This is of small importance, however, so long as German imports and exports are not set free, and every transaction is controlled and subject to permits where price and competition are concerned. Germans engaged in foreign trade must have the use of a currency which enables them to enter freely into transactions with foreign countries. This currency can, and must be, a "hard" currency.

It is clear that Germany cannot create such a "hard" currency by herself. The Deutschemark is a Government currency. Its international value depends upon the capabilities and the goodwill of the Occupation Powers. Thus it corresponds to the currencies of almost all other European countries, the value of which is dependent upon a changing transitory situation and the policy of governments. Such a state of affairs is understandable for a time as a consequence of the war; but all efforts must be directed towards creating once more a fixed standard in the midst of such fluctuations, on which economic forces can take their bearings. We need a gold currency. Such countries as cannot have a

gold currency of their own must be helped with gold credits enabling them to calculate in gold.

The best organization for this purpose is not a bureaucracy but a businesslike organization which is subjected only to inspection and control by the Allies. The Bank of International Settlements could be this organization. It has been acquainted with the credit and business affairs of all European countries since 1930. German partners in that Bank established permanent contact with German economic life—a contact which, as before mentioned, was not broken even during the war years. No other organization is better qualified to replace the costly, top-heavy, and, at times, unbusinesslike, Allied economic authority.

Marshall Aid arose from the crying distress of the German people. The more their situation improves, as time goes by, the more should we consider whether it might not be of advantage to exploit Marshall Aid subsidies in a different way to that adopted hitherto. So long as the present method is in use, no one can tell whether it will be possible ever to repay even a part of the Marshall funds. This uncertainty creates a further element of insecurity in German economic life. Is it not time to exploit a considerable part of American aid in providing Germany with a currency of her own such as would empower her to operate in the world's markets at her own risk and on her own initiative?

Over and over again, all European countries concerned with this problem are trying to overcome difficulties in international trade by agreed or arbitrarily established exchange rates in their various currencies. The clearing agreements enforced in the early 1930's by bilateral commercial treaties are tempting us again

and again to establish a form of multilateral clearing in place of, or beside, a bilateral system. But all such attempts are frustrated by the mutual distrust of all European currencies, and by the fact that each country is trying as a result to find a way to transfer its foreign trade from the "softer" currencies into the "harder" ones. Under such conditions there is but one hope of salvation, namely the re-establishment of as many hard currencies as possible in Europe. This is the task which the Marshall Plan must set itself before its funds are exhausted.

Thus the problem stretches far beyond the German framework. A way must be found whereby all Europe once more obtains a stable currency. While it is quite natural for a German proposal to deal with Germany in the first place, it is nevertheless clear that German economy is the nucleus of the European problem, and that plans for a currency policy should therefore begin with Germany. Yet, in suggesting that we make use of the Bank of International Settlements, we emphasize that we have the whole of Europe in mind, or Western Europe at least, to begin with. For this bank has proved its worth in its first attempt to create and secure a community of interests for all European countries, even for Japan and America as well, in the sphere of banking. If we succeed in re-establishing stable currency relations such as would empower Germany to take part in world trade without bureaucratic controls, by way of the Bank of International Settlements at Basle, then the application of the same methods to other countries by way of the Basle bank would be easier than if the attempt were made to create a safe currency solely for Germany.

Co-operation in this field within the Bank of International Settlements has the advantage of creating closer contact between European business circles and giving them a stronger interest in aims common to all. The traditionally neutral soil of Switzerland—which, curiously left its mark more noticeably upon the Bank of International Settlements than in many non-economic spheres of action—is particularly encouraging to an attempt to link up the solution of European currency problems with that bank at Basle.

It is surprising that in attempting to re-establish currency co-operation between European countries no leading part has so far been allotted to the Bank of International Settlements. This may be explained by the fact that the Bank of International Settlements is itself a strong protagonist of the gold currency, and that all other attempts, such as by way of a mutual clearance system, have shown themselves so far to be unsatisfactory in the end. The refusal of Great Britain to grant the freedom of convertibility of sterling into the currencies of the other Marshall Aid countries merely brought about such temporary measures as a Belgian credit for Britain, but even this is a transient expedient, not a final solution.

Obviously the work of reconstructing European currencies cannot be completed at a single stroke. Destruction is rapid, reconstruction a long drawn out process. One must envisage rather a long period of slow reintegration. This method, however, is much more beneficial to trade than was, for example, the sudden cut in German currency on 20th June, 1948. Economic activity needs time to adapt itself to new conditions. Sudden interference irritates and retards

it, whereas credit, by its slow but persistent efficiency, could bridge many disadvantages resulting from currency innovations, and give trade time to adapt itself.

Apart from their military power, the United States have the power to give long-term currency assistance to Europe, not only by their own gigantic economic potential, but also by their huge gold reserves accumulated in the last ten years as a result of their surplus of foreign trade. These gold funds are at present quite sterile and unexploited, while the rest of the world remains stripped of its stocks of monetary gold. It is true that the loss of interest each year, which results from this hoarding and amounts to several milliards, does not greatly affect a country economically as strong as the United States. The distribution of part of this stock of monetary gold among the other countries of the world could contribute much, however, to the reconstruction of an international stability of currencies. In any case the gold reserves at Fort Knox are indicated as the basis for gold credits for the currency stabilization of Europe. We may think of the Union of South Africa likewise, but there would have to be a good deal of preparation and adaptation before it could co-operate, and this would mean a considerable lapse of time. An immediate start could be made with Fort Knox.

10. THE GOLD "TALER"

In view of all that has been said before, the attempt to turn German currency into a "hard" currency and provide the country with capital might take the following form.

A German section with its own legal status could be created within the Bank of International Settlements at Basle. The concerns of Germany would be kept apart from the rest of the bank's business. The German banking department would alone be responsible for all its obligations, and all its claims would result exclusively to its benefit. In this way other business of the Bank of International Settlements would not be affected by the transactions of the German department. There would be no risk for the bank's creditors, nor would its shareholders participate in the profit or loss of the German department. Profit or loss resulting from its transactions would be dealt with separately.

The United States Government would grant to the German department of the Bank of International Settlements, a credit of say 1,000,000,000 dollars. This credit would not be granted in American currency, in dollars, but in the form of gold equivalent in value to 1,000,000,000 dollars. This gold would be taken from the gold reserves at Fort Knox, but would remain in the United States, set aside from the remaining gold reserves as the property of the Bank of International Settlements, granted to it in the form of credit. It would be held in trust by the management of the Federal Reserve System.

Against this gold to the value of 1,000,000,000 dollars the German department of the Bank of International Settlements would issue banknotes for Germany to the same value. These banknotes might bear the appropriate name of "Taler" (the name of a coin from which the American dollar originally derived), and one Taler would correspond in its gold parity to one dollar. Whether this German Taler should be given an exchange ratio to the Deutschemark of 3 or 2.50, etc., could be left to the experts in international purchasing power parities. I myself am unable to appreciate the theory of the parity of purchasing power and therefore avoid making any definite proposal on this point. I am of the opinion that the purchasing power of money adapts itself more rapidly and less perceptibly according to the natural variations in production and consumption than according to arithmetical calculations.

Purchasing power is never an entity which can be fixed for some duration. It is a subjective, not an objective factor. It varies with the nature and extent of consumption, the increasing influence of technology and organization, and the extent to which demand is satisfied more or less thriftily. There is no objectively correct, arithmetically calculable factor called "purchasing power". An indolent person can vary his purchasing power by becoming industrious, or the reverse. If purchasing power had any significance in the development of prices, exchange rates and economic-political consequences, then it would have to show a certain stability. Yet it can be altered at any time by human decision. Thus, when we speak of the adaptation of exchange rates to purchasing power, it is at

least as correct to speak of the adaptation of purchasing power to exchange rates. Even so, there is no obstacle to establishing a new parity for the Deutschemark, and this is true of all currencies to which our proposal might be applied. Present discussions regarding the recent devaluation of sterling and other currencies, or the increase in the price of gold—which in effect means the same thing—can be taken into account without difficulty. What is alone essential, is the revival of freely playing international exchange rates based on gold.

1,000,000,000 Gold Talers, then, would be put at the disposal of Germany's economy. Technically as well as for investment purposes this would be achieved through a close co-operation between the Bank of International Settlements and the German issuing bank. This central issuing bank should not be deprived of its control of the German currency circulation, and to that end would have to be kept constantly informed of the amount of Gold Talers in circulation. Through the co-operation of the Bank of International Settlements with the central issuing bank, the latter should be empowered to control the total German currency circulation within its own currency area, and thus preserve its influence on the issued amount of Deutschemarks as well as of Gold Talers in circulation.

But it is right that the influence of the central issuing bank should not be confined to the circulation of the currency alone. The co-operation of the central issuing bank would be desirable likewise in making decisions regarding the direction and the recipients of credits in Talers. For we have already seen that the decisive factor for the stability of any kind of currency

is the equilibrium of the balance of payments in foreign trade. This task remains primary, even when Gold Talers have been introduced; and it will be necessary in the first place, and in deciding first priorities, to grant credits in Gold Talers where they can best be of service to the equilibrium of balance of payments, i.e. the export industries. Credits in Gold Talers would be designed in the first instance to assist the re-development of German exports. That is the significance of the co-operation between the Bank of International Settlements and the German central issuing bank.

This co-operation will be necessary not only in respect of exports, but also, or even more so, in respect of the security of the credits to be granted. Obviously the Bank of International Settlements can and must grant credits only to such enterprises as appear likely to be able to pay the interest and amortization. Security should consist not solely of the business reputation of the enterprise concerned, or of the persons directing it, but be backed also by collaterals. These collaterals could take the form of debentures and mortgages on plant or real estate, raw materials, current production and so forth. To hold and administer such securities would require an administration such as the Bank of International Settlements could hardly establish. It could be reasonably entrusted to the central issuing bank and such German public and private banks as depend on it, or are connected with it. Further, these banks could produce yet more securities, or themselves create them by means of personal guarantees, insurance policies, joint securities, bonds, scripts and other means which are customary in banking.

Of course the Bank of International Settlements

could also finance with Gold Talers short-term transactions in foreign trade. But this could as well be done by established private banks, since such transactions are short-term transactions which liquidate themselves automatically. As against this, the real purpose of Taler credits would be the financing of capital investments, where repayment could only be brought about within an extended period. They are, and are meant to be, a substitute for capital. That is the problem we have to solve. Later on we must deal rather more fully with the question of how far the problem arising from lack of capital can be solved by the creation of money, briefly alluded to above. At this juncture we can only repeat that the purpose of our proposal for the issue of Gold Talers is the reconstruction of German industry and the recovery of her balance of payments, without foreign countries having to sink fresh amounts of capital in Germany *à fonds perdu*. German economy can be put on its feet once more, only if it has full responsibility for its actions once more, and carries its own risks.

Taler credits would have to be extended for as long as necessary to make repayment by the investing business enterprises possible. But the maximum limit would be fixed, in that the length of the credit could not exceed the period for which the original gold credit was granted to the Bank of International Settlements itself, namely thirty years. It is impossible to build up in a day what has been destroyed in Europe as the result of two wars. There is no magic in economic and financial affairs. A continual struggle has to be faced energetically and efficiently, and with long and strenuous effort. Even so, not all Taler credits would be

stretched over thirty years. A great many will require much shorter periods for repayment, and the rapidity with which repayment is made will depend largely on the conditions attached to such credits for business enterprise.

In this respect our proposal is strongly backed by the fact that the gold funds, which would be made available in America, do not bear any interest, and could therefore be placed without disadvantage at the disposal of the Bank of International Settlements likewise without interest. Thus those in receipt of the credits would not necessarily have to be charged with more than their share in the cost of administration, which would be kept low, besides the annual amortization quota. But it goes without saying that such credits are not granted free of interest since business enterprise could well afford a reasonable rate of interest. This could be used to increase the volume of money available for further reconstruction. Amortization of such credits would amount to $3\frac{1}{3}$ per cent. of the capital if loaned for a maximum period of thirty years. Repayment within shorter periods would increase the rate of amortization accordingly.

The form which such amortization could take may be thus visualized: Gold Talers could be returned to the Bank of International Settlements, which would cancel them, so that at the end of thirty years Gold Talers would have ceased to circulate, and the original gold deposit could be handed back. But that, of course, is not the full significance of the transaction. For the problem of creating capital for German industry—a problem which we may perhaps consider as temporary—is overlaid by the second great task we

have envisaged, namely the re-establishment, step by step, of European gold currencies. Therefore Gold Talers must remain in circulation so as to serve as the nucleus for a general gold currency to be established later.

The amortization of credits by the enterprises concerned should not therefore be paid in Gold Talers. The amortization of the American gold credit must be effected in American dollars, which means that debtors must repay their credits annually in dollars at the rate of $3\frac{1}{3}$ per cent., assuming that the credits run for thirty years. It can safely be assumed that these conditions, viewed also from the angle of exchange policy, do not put business enterprise under any impossible obligations. For anyone who cannot earn $3\frac{1}{3}$ per cent. of his debt annually in dollars, would have to be removed from the list of those worthy to receive the credits. The Bank of International Settlements would be empowered in its turn to acquire in time, through the amortization of credits by debtors in dollars, 1,000,000,000 dollars in gold from the United States, so that amortization of the gold credit would be effected in dollars, and a stock of gold to the value of 1,000,000,000 Gold Talers would be accumulated within the German department of the Bank of International Settlements to serve as the basis for a further transformation of the German currency into a gold currency.

It is highly probable that debtors would raise more then $3\frac{1}{3}$ per cent. annually in dollars. All who could do so, would be given a certain inducement, by way of advantages in the rate of interest charged, the setting free of collaterals, etc. Thus a credit of 1,000,000,000

Gold Talers would presumably give rise to a turnover within thirty years not only equivalent to that figure, but far, perhaps several times that amount, in excess of it. In this way a fair chance would arise of acquiring gold to an extent exceeding 1,000,000,000 dollars from the United States. This is important if we envisage the overall scheme for the reconstruction of an international gold currency for the whole of Europe.

The introduction of the Gold Taler alongside the Deutschemark of course raises the problem of parallel currencies. Consequently the question as to how far the Deutschemark and the Gold Taler, side by side, are compatible with each other, must be examined. At this point we have again to emphasize that the Gold Taler is designed in the first place to finance investment in the export industries, i.e. the Gold Taler will make its first appearance in the form of payments in Germany's foreign trade. Of course this immediately gives rise to the question whether the Gold Taler will be accepted internationally or not.

One would suppose that a banknote with a 100 per cent. gold cover would be accepted; but in so doing one would disregard that fact that this cover is merely borrowed. It is only secure if credits made in Gold Talers are in fact amortized in dollars at the agreed dates of repayment. A mere token payment, the supposed equivalent of gold, cannot carry such a risk. It cannot be borne by the accidental holders of Gold Talers, but has to be carried by a third party which must be unquestionably "good" for such risk. America's contribution in granting the gold credit must therefore in some way be brought home to recipients of Gold Taler notes so that their confidence

in the security of Gold Talers is warranted. This should be done by the Federal Reserve Board declaring itself prepared to exchange Gold Talers for American dollars at any moment. If such a declaration were made, the Gold Taler would immediately qualify for international circulation throughout the world. The risk accepted by the United States in granting the gold credit would not be increased in any way by such a declaration. It would merely be evidenced.

America's risk lies wholly and exclusively in the question whether German industry would be able to amortize fully the credit granted within thirty years; that means, whether it would be able to raise the amounts necessary for acquiring the gold. America's only consideration lies in the decision whether it is not wiser, more appropriate and less risky to grant such a gold credit rather than pump Marshall funds into Germany to-day without any assurance of final success, by means of a system of officials, concerning whom it is at least doubtful whether they are putting this money to the best economic purpose, while Germans themselves remain without responsibility for the ways and means in which the Marshall funds are put to use. Indeed, a much more advantageous exploitation of parts at least of the Marshall funds than is possible under the present system, would be secured by creating responsibility for the Germans, and by making those taking credit bear the risks of its proper exploitation, with all their possessions and their very existence.

The endorsing of such responsibility on the part of the Germans can be expected, however, only if all those calling for Gold Taler credits are set free from the bureaucratic tutelage which has so far dominated them.

No enterprise can be burdened with the responsibility for payment of interest and amortization of credits if its business is dependent not merely on generally valid economic conditions, but on the more or less arbitrary control of economic authorities free to confirm or repudiate all proposed transactions. Whoever receives a Gold Taler credit must be free to buy abroad whatever and wherever he thinks best, and to sell wherever market conditions and Government legislation abroad permits.

This granting of liberty of action, at the start, to recipients of Gold Taler credits for their foreign commercial transactions, would have the advantage, that the control system up to now in existence need not be abolished immediately, for it could reduce itself gradually in the natural course of events. This would be only right, since all economic measures requiring slow adaptation are carried out more easily and advantageously than sudden regulations by laws and decrees.

11. OBJECTIONS

As a matter of course every new proposal such as the foregoing produces a crop of doubts and objections. We shall have to deal with some of them. But before doing so the question may be allowed, what other suggestions have been made so far, or whether there is anyone who believes that a mere continuation of the methods applied hitherto could bring about within measurable time any permanent recovery of Germany's economic life? Or finally, whether the efforts to "harden" the pound sterling by the means so far applied promise success?

The fundamental mistake under which German economic policy labours to-day, is that everybody is dealing with day-to-day questions resulting from the present situation, while there is no trace of any far-seeing policy inspired by a desire to alter that situation from top to bottom. Where such a desire—openly or under cover—can be felt, it exhausts itself in political resentment—resentment which in itself has not the slightest chance of final success. We shall have to adapt ourselves to a life which for a long time to come will not be free but subject to tutelage. That, however, cannot and must not result simply in our submitting to this state of affairs. Mere nationalist lamentation is of no avail. Some Germans believe that their fetters might be loosed if they adapted themselves outwardly or accepted a so-called democratic re-education. With all sensible people, however, convulsive attempts at "democratic" exhibitionism produce but a sad smile.

For what we see accomplished to-day in every corner of the world, under the catchword of democracy, is hardly of a nature to kindle much enthusiasm.

We shall not deal here with these questions fringing on politics. I have made these few observations for the sole reason that I see a possibility that Germans might secure a greater liberty of action and a new zest, in one sphere only: the economic sphere. It is their duty to bombard their present foreign rulers with sensible economic proposals and ideas as often and continuously as they can, so that these rulers may be made aware of the advantage which they themselves must gain by carrying out these suggestions. National feelings and forms of civilization differ all over the world, but the economic foundations of modern life are everywhere identical. Economic advantages which bring increasing benefits to one country are also always beneficial to others. That is why economic policy is the one and only cardinal point from which we can start to improve the political situation.

I will go over once again some of the questions which have already arisen in our past deliberations. Is there anyone who believes that with the end of the Marshall Plan in the middle of 1952 the German balance of payments will have been brought into equilibrium by Germany's efforts alone? Is there anyone who believes that, in an adverse situation, America will continue to hand out, as gifts to Germany, huge sums every year at the expense of her own taxpayers and without expectation of repayment? Is there anyone who believes that the present currency in Germany —about whose security there shall not be the slightest doubt—is a currency adapting itself purely and simply

to international trade? Anyone who, in answering these questions, harbours the slightest doubts, should not rest either by day or night before finding in the course of time ways and means of economic and financial policy which will rid him of these doubts. A mere jog-trot does not bring us any further.

We ourselves are once more exercising the old German virtue of carrying out orders from above with the greatest conscientiousness. That virtue proved itself absolutely fatal during that darkest era of German history which now lies behind us. It is not the carrying out of foreign currency control decrees that is needed, but their elimination and replacement by sensible commercial procedure. It is not the bureaucratic distribution of tax burdens that is required, but the lightening of these burdens by profitable production. Even should the suggestions submitted in this treatise be refuted, let us at least hope that they are refuted by such critics as can submit other and more useful proposals.

The first objection which may be expected to the proposals made here rise out of national sentiment. Some will say that Germany can hope to be freed wholly from foreign tutelage at a none too distant date. The proposal made in this treatise, however, anticipates foreign interference in currency politics for a period of thirty years. The Bank of International Settlements—a foreign and international institution—will influence and oversee Germany's financial affairs for three decades, however undesirable that appears to the German industrialist and merchant. To this my answer is that it is precisely from this co-operation with a foreign institution, whose collaborators think

in as businesslike a way as I do myself, that I confidently expect the greatest advantages, mutual information and stimulus.

The idea that international trade, and economics in general, can prosper while one side only reaps the benefits and the other pays for them, is a theory which has taken root in many heads ever since the days of British mercantilism, but which is as false as can be. Economics and commerce are processes in which both sides must always find advantage, otherwise they lead to a dead end. It is precisely the initiation of the Bank of International Settlements which gives us hope that this collaboration will lead to further co-operation with other countries and in other domains, and thus contribute to the end of nationalistic differences, which can no longer be tolerated in a densely inhabited Europe.

I do not believe that the Bank of International Settlements, with this insight into German economic life, could learn anything detrimental to Germany. In this connection I recall an incident which took place after the first World War, when a foreign enterprise was negotiating for the acquisition of a German firm. They had agreed on all the conditions until finally the purchaser made one more condition, that the secret files should also be handed over to him. To the astonished question, which secret file had he in mind, he answered: "The secret file, of course, which reveals how the German firm created its business." The transaction broke down over the non-existence of that secret file. We all carry a "secret file" around in our heads. But a head cannot be bought, and its ideas cannot be read without its consent.

A second objection to our proposal will be made by currency theorists who reject a system of parallel currencies on the grounds that it is dangerous. A Gold Taler alongside a simple paper currency would lead to difficulties. It is quite possible that a difference will develop in the evaluation of the Gold Taler and the Deutschemark. One could imagine, for instance, that firms which did not want to ask for credits in Gold Talers under the stipulated conditions would try to secure Gold Talers by way of paying a certain premium in Deutschemarks. I see no great danger in that, for it would always strengthen the natural tendency of the Gold Taler to flow, at least to begin with, into transactions of foreign trade for the most part. Within the country the Gold Taler will find its way round but slowly, especially since the amount in circulation would be controlled in just the same way as Deutschemarks in circulation. This control would also prevent too striking a discrepancy. The famous Gresham Law according to which bad money drives out good, only became valid on account of the full liberty of coining both gold and silver. In the present case, however, both kinds of money would be subjected to control as regards the quantity issued. It would thus be quite practicable to reduce the circulation of Deutschemarks in course of time by increasing the circulation of Gold Talers, and finally replace it altogether by the circulation of Gold Talers.

Again it is the possibility of control which enables us to refute the next, and seemingly the most serious objection, that the increased circulation of money means inflation. It is indeed striking how much certain slogans affect us, though they were formerly

practically unknown and have cropped up during the last decades in consequence of an economic policy without rhyme or reason. What happened in Germany and other countries in the years 1919 to 1923 was in fact inflation of the worst kind. Ever since then we have been haunted by the fear of inflation, to such an extent that with every increase in the banknote circulation we ask ourselves anxiously whether we are not heading for another inflation. Yet the question whether or not inflation takes place is merely one of whether or not the currency policy can limit the issue of banknotes. As long as the issuing bank or a government has the power and intention to limit the circulation of banknotes there is no question whatsoever of any danger of inflation. This is clearly the case with the Deutschemark as well as with the Gold Taler. Should the increase in the circulation of money resulting from the issue of 1,000,000,000 Gold Talers produce symptoms of inflation, then it will always be possible either to stop the further issue of Gold Talers, or to throttle the circulation of Deutschemarks, whichever seems the more advantageous and appropriate.

Yet it is safe to assume that symptoms of inflation such as a considerable increase in prices and the like will not arise, because Gold Talers used for new investment would immediately bring about a lively increase in the circulation of goods. If Gold Talers find their way at all into circulation at home they will certainly show a slower turnover than the Deutschemark.

Other currency politicians may raise the objection that in the end all Gold Talers will find their way into the Federal Reserve System. That however is irrelevant, because the Federal Reserve System would put

the Gold Talers which it exchanged, once more at the disposal of the Bank of International Settlements, on account of the gold credit, the gold substance of which would remain as a fully covering collateral under the administration of the Federal Reserve System itself. Gold Talers flowing back into the Bank of International Settlements would always have their use in the form of fresh credits granted to German enterprise.

Of course the Bank of International Settlements can never grant Gold Taler credits beyond the amount available to it in form of gold credits or dollars received in repayment. It can issue more than 1,000,000,000 if it can cash the interest in dollars, then likewise available as collaterals. As far as it acquires parts of the gold deposit, by way of the dollars incoming as amortization or interest, the possibility has to be envisaged of the United States making up again to the amount of 1,000,000,000 the gold granted as credit and reduced by these repayments. This possibility can be considered in particular if the Gold Taler credit develops without friction and with success.

It might, of course, be assumed that the Gold Taler —which, unlike foreign currency, can be earned by labour and service within the country (i.e. not only by export)—might be hoarded and thus vanish from circulation. That should please those who worry about inflation, since in this way the circulation of money would be diminished. The danger of hoarding must not be taken seriously however, because—without control by the tax collector—it could only be brought about in the form of banknotes, not by money on deposit. For all bank transactions can be controlled within the bank, and the great majority of these credits

and their further exploitation would forcibly run through bank accounts to a much higher degree than does the Deutschemark, which is required in the form of currency notes for the payment of wages and other small amounts.

The danger of inflation will be overcome all the more easily, as we have learned from the experiences of the financial collapse of 1931. In November of that year the Reichs Chancellor Brüning explained to the head committee of his party in Berlin that "when after the inflation, we suddenly had money in our hands again as the result of foreign loans, we no longer knew what sensible use to make of it. Indeed we no longer knew what money in fact meant." To-day we know the dangers to which inflation of credit exposes us.

Thus we come to the last objection which will be discussed here: that by introducing the Gold Taler we once more venture into the field of borrowing abroad, and thus into the danger zone which is necessarily connected with the obligation to repay foreign loans. But here too the situation to-day is quite different from that of yore. The thing then, which involved us in particularly grave dangers, was the enormous size of the foreign credits themselves, on the one hand, and the fact that a large part of those foreign credits was contracted on a short-term basis, on the other. The Gold Taler credit, however, will always be limited in size. Its amount will always be adapted to the requirements of German economics. Furthermore, it will be established for thirty years and thus be a long-term credit providing for thirty equal annuities of amortization. That is no threat to the German currency situation. As late as October, 1930, the same Brüning, who realized

but a few months later the danger of foreign credits, took up an American credit of 125,000,000 dollars (then 500,000,000 Reichsmarks), repayable in three annual instalments. Transactions of this kind show a complete lack of feeling for commercial finance. As against that, a credit repayable at the rate of $3\frac{1}{3}$ per cent. per annum, of which not even the interest has to be paid in foreign currency, is a sensible suggestion.

With such a proposal the exchange problem, above all, is settled in both directions. Normally, in the 1920's a foreign credit could be transformed into Reichsmarks only by handing the foreign value to the Reichsbank, which in turn issued marks to that extent. Had not the continual outflow of foreign values, mainly for reparations payments, taken place, the Reichsbank would have accumulated an enormous amount of foreign money, in fact of 10,800,000,000 Reichsmarks alone, had no reparations been paid, as was shown above. Simultaneously the Reichsmark circulation in turn would have had to be increased by the same amount. But because the Reich had to pay in marks again and again in order to obtain foreign currency for its reparation debts from the Reichsbank, the circulation of money adapted itself automatically. With the foregoing proposal foreign gold transforms itself into a national means of payment without any transfer problem arising.

It should be obvious that our terrible economic situation cannot be improved by traditional methods. The then Minister of Finance, Dietrich, a Democrat, rightly explained in a speech he made to his party at Stuttgart at the beginning of January, 1931: "When four million people are confronted with the danger of

being driven to despair, objections are nothing and positive measures everything," and he went on to say "the nonsense of our spending more than 2,000,000,000 Reichsmarks a year—with the contribution of local government, perhaps as much as 3,000,000,000—for millions of unemployed, without getting an equivalent from them, is so monstrous that we must decide to tread new paths without narrow-minded and theoretical scruples."

We are to-day not yet in as dramatic a situation as regards unemployment. But all our prospects in the economic field are as dark as possible. We know what political consequences the figure of 6.5 million officially registered unemployed brought about, and we must try therefore by all means in our power to put our economic system upon sound foundations before any new political convulsions take place.

12. THE GREAT PERSPECTIVE

THIS treatise is naturally prompted by the desire to help Germany in the first place. But in a world as closely interwoven as that of to-day I have always attempted to link up any advantages for the Germans with those for other nations. Openly and repeatedly I warned foreign countries against granting excessive credits to Germany. I planned, within the framework of the Dawes Committee, in harmony with the representatives of other countries. I took pains with the Young Committee to make the development of undeveloped countries a common task for the industrial nations, in proposing the creation of the Bank of International Settlements. I collaborated closely with foreign creditors when trying to mitigate and overcome the damage created in 1931 by Germany's financial collapse. I always maintained the principle that Germany herself could prosper only if others throve likewise.

When in 1936 I visited the different Balkan states in order to conclude with them reciprocal barter treaties, I met with their goodwill and favour chiefly because I declared publicly that the Germans did not intend to keep their countries on a merely agrarian level for as long as possible, but that, on the contrary, we desired their progressive industrialization as well, being well aware that purely agrarian countries would be comparatively poor customers of industrial countries, while their own increasing industrialization would certainly enlarge their purchasing power.

With this consideration in mind I cannot accept the

view—unfortunately by no means rare among German economists—that it would not pay to submit a proposal of an economic nature to foreigners, who are in any case unwilling to see Germany rise again, and who consider her as a competitor to be eliminated. This idea, which some people impute to the victorious powers, appears to me so exceedingly stupid that I cannot conceive it as possible in the long run. For it is not the poor and starving who can buy, but only the wealthy. It is regrettable, yet understandable, that a Morgenthau Plan should have been devised in the first moment, prompted by feelings of retribution and revenge. It was inevitable, however, that it should be discarded within the first two years; for even if Germany were not wanted as a purveyor, she was still wanted as a consumer.

I believe in particular that America has become aware of this fundamental axiom of commerce. All discussions in the American economic and scientific world are proof that she realizes clearly her present situation. Whatever was swallowed up in the course of two wars has been paid by her already, and is gone for ever. It was paid for partly out of taxation, and partly by claims upon the community, the state, taken up by individual bond-holders. Whether these claims will ever be honoured, whether the heavy war taxes can be reduced in the future, depends exclusively on the chances of possible profits in the future. For years now Americans have been exporting goods without recovering an adequate counter-value. They pay for their own exports. That is, to put it bluntly, an economic wastage which consequently cannot last. We Europeans must be grateful to the United States for making such sacrifices, but it is our bounden duty

to assist them to reduce these sacrifices and make it possible to dispense with them in the near future. It is not only our duty, but a matter of prudence, for things cannot go on indefinitely as they are.

Thus I am convinced that the Americans not only see the great economic prospects which lie before them, but will make use of them as well. Astonishingly enough they did not make use of them after the first World War. For already they had the chance then of attaining supremacy in all those branches of business on the smooth operation of which world trade relies, viz. the financing of production, in transport, insurance, brokerage, etc.

However acute and heavy the industrial competition of the continental countries of Europe with Britain may have been, all of them gladly benefited from the fact that Great Britain dominated these basic branches of world trade, directed them and made them available to her Continental competitors. Whatever justifiable criticism may be levelled against Britain's foreign policy, in the economic sphere the *Pax Britannica* benefited the whole world. Britain had managed to make valid the legal and commercial rules of the game all over the earth. They offered security to international trade even in the most distant countries, and nothing short of two world wars could destroy that security. Under the sudden nationalistic awakening of the Asiatic peoples the respect for property, the rules of commerce and exchange, suffered most grievously. In order to heal those wounds a new and powerful leadership is needed in the domain of world trade.

It is a heavy blow for all Europe that Great Britain

no longer commands the means to practise such leadership as she previously did. This is due, not so much to her political losses, as to her being stripped of the necessary financial means. Without those huge capital reserves at her disposal before 1914, and with her present unsecured currency, the weight which she previously bore to her own and to Europe's advantage, and could well bear, has become too heavy for Britain to carry. Then there was no risk of transport, insurance, credit and output in the whole world which could not be covered in the City of London. The European trading world cannot forget it and will always long for a restoration of that former state of affairs.

If it is true that a permanent universal peace can only be based on general welfare, then here is the great task which must be shouldered by America. This task cannot be left to haphazard development; it must be taken in hand as a political task of the first importance, and with an eye on the aim in view. This was neglected after the first World War when it would have been possible for America to step beside Great Britain into the position of leader of world trade. This neglect should not occur again. We must realize what immense power for peace and security lies in the exercise of those functions formerly performed by Great Britain in world trade.

It is child's play, and primitive from the point of view of banking, to sell the bonds of loans granted to foreign countries or enterprises, through thousands of bond salesmen, to a more or less unsuspecting public. But to insure a shipload to Bangkok, or a consignment of goods against deterioration and damage; to organize the construction of a harbour installation in Colombo;

to grant reimbursement credits for goods under way, eliminate the risk of payments in foreign currency, and whatever else is required in trade: this needs all the experience of a long-lasting tradition, all the inventive versatility of the master of business, the investment of courage and capital potentiality, and the sense of justice and honesty of a royal merchant. It will be one of the most essential conditions of world peace not to let go by the board this old Anglo-Saxon tradition, but to continue and develop it. Peace and progress do not rely upon the means of power but upon the spread and safeguarding of welfare and law.

When we see to-day the immense means of economic power held by the United States, then it is really surprising what a series of misunderstandings, prejudices and inhibitions have hitherto prevented the use of these means with full results in the cause of world peace. As neutrality hardly existed any more in the second World War, and as it will certainly not exist in the future, the days of Isolationism are over. The victory of the maxims of democratic government can only be assured if the world strides on towards economic welfare. Just as it was impossible to come to an understanding by treaties with Hitler's totalitarian system, so it will be impossible to do so with Bolshevist totalitarianism. What then are we waiting for? Every year lost renders the moral condition of the population in economically depressed countries less receptive, less willing to make a strong collective effort, more a prey to dullness and despair. On the other hand, it is obvious that the decisions to be taken demand an heroic spirit and much far-sightedness. Who to-day in the whole world could induce these two qualities, if not America?

III

13. BALANCE OF PAYMENTS FOR GERMANY

We have stated before that an orderly balance of payments is decisive for the lasting value of any currency. Bad financial policy of the state too can, of course, ruin its currency. A state which finances expenditure, not by taxation but by the printing press, wrecks its currency. Well-ordered state and national economies are preconditions of any currency policy. Professor Predoehl in his recently published book, *Aussenwirtschaft*, formulates this theory acutely. "Currencies," he writes, "can be put in order if their economic corollary is balanced at the same time. To build up a currency system on a disorderly economy is a contradiction in terms, even if one agrees that the one cannot be achieved without the other, and that a country's economy cannot be put in order without the same being done to its currency also." This thesis was justified in particular by the currency reform of 20th June, 1948, when it was believed that an orderly currency could be introduced into a totally disrupted economy.

We shall not discuss here the question of an overall re-establishment of the economic system, since what matters for our purpose is the balance of payments abroad. If Germany is to enjoy once again a permanently stable currency, the German balance of payments must be brought into equilibrium. That is the final

goal of all currency and economic policy. Such an equilibrium, however, can only be achieved by an increase in Germany's industrial exports. The foreign currency which they realize must cover the import of such foreign foodstuffs and raw materials as are necessary for the maintenance and labour of the German people.

Here again the German problem in relation to the countries surrounding her immediately comes to the fore. Inasmuch as Germany must supply world markets in order to earn the fundamental requirements of her economic life, to that extent she is the rival of industrial countries such as Britain, France, Belgium, the United States, etc., in competing for this part of the world's markets. This competitive activity, and the natural resistance of foreign countries to such German competition, form the real background to all political conflicts, which from the turn of the century have crystallized around Germany herself. In former centuries wars resulted mainly from dynastic and nationalist interests, but the two World Wars arose from the rivalry of economic competition and were fought on that issue.

The correctness of this statement is proved most clearly, not by the measures taken by the participants before the wars, but by the measures applied by the victorious powers after winning them. Former wars nearly always resulted in a rearrangement of frontiers and territories, and contributions towards the cost of the war. After the first World War a totally different policy was applied for the first time. For whereas until then the conduct of war was a matter between states, that is, between governments whose private, individual

citizens were respected, and hardly involved in the war, now the monstrous fact became apparent that the individual citizen was held responsible for the defeat of his government, and could thus be robbed of his private property. By this measure two basic pillars of international trade were shaken, namely legal security abroad and commercial credit beyond the frontiers of a country. Yet it was upon these two basic pillars that in the course of centuries the whole of international trade had been built up.

The history of trade teaches us that the peaceful settlement of markets and lines of communication, the protection of commercial agreements, the valid execution of justifiable claims, and similar safeguards of markets, credits and payments, are among the first elements of trade policy. The safeguarding of the rights of sojourn and domicile, warehousing, the use of transport, movements of goods, and the right to bring actions for claims, etc., play an important part in every modern international treaty.

The first World War and the dictated Treaty of Versailles made the first wide breach in this wall, which was indispensable for the protection of international trade. The legal and moral discrimination used against the Germans by the victorious powers instilled an element of distrust into world trade which has not disappeared to this day. With primitive peoples respect for alien property was enforced only through the example set by industrial nations, which had previously safeguarded absolutely such property, regardless of whether it belonged to friend or foe. Now, however, private property belonging to the enemy was suddenly outlawed in an instrument of peace dictated

by the leading commercial nations of the world. If property was no longer unassailable, how then could a credit system which was based inevitably on property, be expected to function?

After the territorial peace terms in the Treaty of Versailles, claims against Germany of an economic-political nature loomed largest. Immediately after the armistice German deliveries in kind had already started in the form of railway wagons, locomotives, cattle, coal, potash, timber and so forth, and they continued after the conclusion of the peace. Small stoppages in these deliveries brought about the French and Belgian occupation of the Ruhr and compulsory shipments of coal and coke. The entire German merchant fleet of vessels exceeding 1,600 tons had to be handed over.

While the delivery of coal had already tapped much of the lifestream of German industry, confiscation of the merchant fleet inflicted the deepest wound on Germany's export trade. The seizure of all German private property abroad, and finally of loans to foreign countries, was virtually the *coup de grâce* for German exports; for a great part of these exports was based upon such foreign assets. The property included business firms overseas, agencies and their branches, transport and stocks—everything, in short, which was necessary for the management and distribution of business abroad. Foreign loans and similar assets formed Germany's financial backbone in days when slumps affected the sale of export goods. Their expropriation meant a loss of foreign currency in trading with other countries to the extent of about 1,500,000,000 Gold Marks a year, an amount which

was now lacking for the equilibrium of the balance of payments.

Reconstruction of a foreign organization, indispensable in itself for the recovery of industrial exports, required fresh investment of foreign currency, which could be secured only with great difficulty and at heavy cost. Apart from that, the Versailles Treaty contained a whole range of restrictions on German customs, and granted temporarily to the victorious powers a one-sided most-favoured nation clause, affecting their imports, exports and goods in transit. The areas which Germany had surrendered, Alsace and the Polish Corridor, were for years permitted to introduce their products into Germany free of all customs duties. All this shows that the infliction of economic damage upon Germany was what chiefly interested the victors.

The victors were not aware at the time of the consequences such a policy must have upon the world's markets; for every unreasonable burden laid upon Germany inevitably provoked increased German competition in the world's markets. It had been intended to eliminate or at least reduce German competition. The exact reverse was achieved, by forcing Germany to even greater efforts. It could not be assumed that the German people would resign themselves simply and silently to starvation. On the contrary, their energies were merely stimulated by this treatment. German competition did not decrease. It increased.

After the second World War the situation did not improve by any means. This is proved most clearly by the confiscation of German patents and methods of production, which it is hoped will enrich the industry

of the confiscators and damage Germany's. Similarly, by dismantling industries with war potentials, the peace potentials of those same plants, and thus their competition, are eliminated at the same time, not to mention the confiscation of machinery and equipment exclusively serving a peace potential, such as has happened here and there. On top of this, the tutelage under which the whole of German production, especially for her export industries, is held by the Occupation Powers, the prohibition of certain industries, and all other restrictions on foreign travel, sea transport, insurance, credits and the like, would fill many pages were they to be recorded and explained in detail. Five years after the end of the war Germany is still without a peace treaty. She lives under the arbitrary law of the Occupation Powers.

In enumerating these facts, sketchily if not in detail, I do so not with a view to political criticism. It is merely my purpose to show deeper reasons thereby for the international political tension before the war, on the strength of the steps taken by the victors after the first. This tension grew and finally became acute. I ignore the question here of direct responsibility for the outbreak of both world wars. For the second it obviously lies with Hitler alone; but I would like to lead the discussion away from the question of personal responsibility, and towards the crucial, and immensely more important question of whether the Western World can at long last find a way of avoiding economic civil war, and establishing an economic policy in common.

For one must realize in the long run that one cannot reckon with the elimination of a nation of seventy

millions, such as the German nation, in the field of industrial competition. The space in which the German nation is confined to-day can provide agriculturally for forty million people perhaps, but never for seventy million. Thus there are about thirty million Germans too many who have nothing to offer but their physical and intellectual capacity for work. They must sell the product of their work for food, and compete with other industrial nations. One neither could nor would transplant this surplus of thirty million people to other countries, nor could or would one annihilate them.

So long as the German people could feed itself from its own soil, there was no German problem for the world. The question of the unity of the Reich was an internal problem for Germany. When Bismarck settled this problem, accepting the risk of war with Austria and France, the rest of the world remained comparatively disinterested. Furthermore, Bismarck, who to-day is decried by so many zealous and one-sided critics as a precursor of Hitler, enjoyed the esteem of the rest of the world during his lifetime in many respects.

Only with the increased industrial expansion of German economy did the attitude of foreign countries change towards Germany, when at the start of the nineties of the last century she appeared in the world's markets. This expansionist trend was forcibly brought about by the growing discrepancy between the mounting population figures and the fixed area available in Germany for cultivation.

The tension resulting therefrom provoked Bismark's successor, Caprivi, to pursue a policy of long-

term customs and trade agreements with other countries. In 1892 he concluded the first commercial treaties for periods of from ten to twelve years, during which no increase in customs tariffs was permitted in so far as goods covered by the treaties were concerned. The Reichs Chancellor Bülow succeeded in renewing most of these treaties, though with some alterations which took into account developments which had occurred, for identical periods. In these two treaty periods international trade was developed in a state of security which brought about the well-nigh undisturbed progress of civilization and culture. This policy contributed in particular to extending the period of world peace. But of course it could not prevent the fact that Germany's exports, in step with the growth of her population, were more and more influential in the world's markets, and thereby further increased the political tension which finally exploded in the first World War.

If one wishes to reproach Bismarck and the policy of his successors, one should do so mainly because (as we see it to-day) they did not realize in time the danger which would result as a matter of course from the growing industrial competition of Germany, and the effect it would have on her political relations with neighbouring countries. They should have looked for loopholes, and they might have found them in the task of developing Germany's colonies. Then a well-to-do Germany would have raised without difficulty the great capital investment which of course would have been necessary. In this way a large part of her export trade would have been diverted from the world's markets to the colonies which she then held, and would have

been balanced by the importation of a whole range of raw materials and foodstuffs from her colonies in development. Ores, rubber, timber, vegetable fats, hides and many other things would have paid for the investment in railways, rolling stock, cars, electrical equipment and so forth. For the first World War Germany raised 100,000,000,000 marks in War Loans alone. A small fraction of this sum invested in Germany's former colonies would have been sufficient to turn German East Africa, the Cameroons and South West Africa into prosperous countries, and to relieve other world markets of much German competition.

It needed two World Wars to make it clear that a permanently increasing and developing technique, upon which the growth of world trade and civilization depends, is impossible without the simultaneous development of those areas from which flow the raw materials and foodstuffs necessary for this technique. All other means and alternatives have been, and still are, insufficient, and thus the final solution has been impossible so far.

14. INSUFFICIENT MEANS

So long as the problem of the balance of payments for overcrowded industrial countries was not fully realized in all its importance and growing acuteness, the policy of long-term trade agreements contributed towards delaying the coming disaster. The moral effects of this system of trading agreements were greater than its material effects could ever be in the long run. What keeps political leaders of all countries breathless and apprehensive to-day is the pursuit of one-sided interests not subject to treaty obligations and regardless of the vital requirements of partners in business. Compared to such a treaty-less state of affairs, the policy of commercial treaties did at least try to achieve a peaceable balance of interests, while the unilateral activities of to-day carry with them for ever the seeds of conflict.

Even the policy of commercial treaties, desirable as it still is to-day and always will be, could not solve for any length of time, the problem of how the over-populated industrial countries are to obtain freedom to feed themselves and export at the same time. That would have been possible only if the relation between population and economy remained static. Yet the increase in the population, together with the economic development, were in a state of flux everywhere. Industrial countries tried to maintain the importance of their own diminishing agrarian production by way of protective tariffs for farm products, and industrially underdeveloped countries tried to develop an increased in-

dustrial production of their own protected by new or increased industrial tariffs. When at the end of the first period of commercial treaties at the beginning of this century, the treaties were renewed, a number of mutual tariff concessions had already to be made in order to reach a new understanding about these treaties.

Such increases were accepted by the industrial countries in view of the contractual safeguarding of tariffs for a period of twelve years, by which means it was possible to overcome increased duties by measures of technical and commercial organization. They in their turn reduced the prices of goods destined for these markets.

The inclination of industrially under-developed countries to dispense with goods from industrial countries, by creating their own industries, necessarily put an end to the policy of commercial treaties in its old form. The result of this process is perhaps best illustrated by the story of the Hamburg exporter who said "In my youth I exported bottled beer to Argentina. Then the Argentinians started building breweries of their own and I exported to them brewery machinery and equipment. After these had been installed my exports were confined to providing them with beer bottles, and to-day I provide them only with labels for these bottles." Any system of commercial treaty policy must adapt itself to such dynamic transformations of the economic process, and it will always remain desirable even if limited in its results. For it still had the advantage of easing the adaptation of economics to changing circumstances under the protection of long-standing treaty arrangements, when contrasted with such sudden measures of tariff and

commercial policy as could interfere unexpectedly with existing business relations. Desirable as binding commercial treaties will always be, yet a policy of commercial treaties alone will never be able to produce a lasting solution to the problem of industrial exports. Thus the policy of commercial treaties belongs to the category of insufficient remedies.

A second way in which to settle the problem of overpopulated countries would be by emigration. As long as there are any uninhabited or thinly populated countries on the earth whose soil might offer sufficient facilities to feed new settlers, the idea seems inviting to populate such free soil with the birth-rate surplus of the industrial countries. Climatic obstacles such as exist formerly for the white race (of which the industrial nations principally consist) are no longer as fearful as before. Hygiene, heating and cooling technique today render even tropical areas inhabitable to the white race, where before this seemed impossible.

The main obstacle is politics, however. The free countries of the world have been distributed. By confiscating Germany's colonial territories the possibilities for German emigration into uninhabited possessions of her own have been cut off. Yet other countries will not open their thinly populated territories, either to Germans or Italians—the two peoples of Europe chiefly in need of it—because of the political difficulties feared in consequence. The huge, thinly populated areas of South America could accept many millions of Europeans. This is prohibited, however, because the South American states do not want to see their national structure altered by mass immigration. Even such countries as the United States of America, which in

former decades gladly received any available number of immigrants, have closed the door for several decades now to uncontrolled and unlimited immigration.

The thing which is really closest to the heart of the emigrant—the desire to remain in contact with his fellow-citizens, kith and kin, and to uphold their culture, language and education—is what goes against the grain with the accepting nations. If it were possible to open up a country to-day where several million Germans could settle with permission to preserve their traditions, language and civilization, the German problem could be solved immediately. Political conditions, however, prevent that. Thus emigration is also an inadequate means to-day for solving the European industrial crisis. It is partly applicable to Great Britain, France and Belgium, who have their own large colonial territories, but it is inapplicable to the other industrial peoples of Europe.

Private industry itself has tried to mitigate the competition between industrial countries by way of agreements which granted priorities to certain producers for certain markets. Before the first World War a number of industries, especially iron and steel, had succeeded in concluding international cartel agreements between the competing firms of different countries. This was promising especially inasmuch as it fostered peaceful co-operation.

At a period when the international policy of trade treaties was still in abeyance, i.e. after the first World War, such private endeavours were even more frequent. They were proof of the desire in all industrial countries for regulating the trading conditions in the world's

markets by a common contractual system. Political developments nipped these attempts in the bud. And it seems doubtful in any case whether such private arrangements would have sufficed in the long run to settle the problem here under discussion. For it is not confined to a mere distribution of existing facilities, but embraces the steady extension of industrial production consequent on the birth-rate surplus. The distribution of markets, whether private or governmental, will always give rise to conflicts, since the dynamic power of industrial countries increases at different *tempi*. The problem of this dynamic development can only be solved by dynamic methods. The pressure of an industrial country on the export market must find an extension of this market which will correspond in its possibilities to the increasing industrial possibilities of the exporting country itself.

The most senseless attempt to solve this problem was the way chosen by Hitler, namely by war. He imagined that he could annex the undeveloped areas of Eastern Europe and thus create an outlet for Germany's industry and population surplus. We need not emphasize here the morally damnable character of such a policy, and can confine ourselves to the economic side alone. This leads us to the statement that, except for the colonial conquests of bygone days, every war whether lost or won brings economic loss to both victors and vanquished. To realize this, one has only to visualize the number of productive plants of economic value, which might have been built with the thousands of millions of money used up in the destruction of material goods and human labour in both World Wars.

It is impossible to imagine or assess fully the lunacy

to which humanity gave way in fighting these two World Wars. It is regrettable that contrasts in nationalism, or even ideology, are always opposed to economic policy. The bilateral commercial relations between Germany and the Balkan countries before the second World War worked most satisfactorily because the economies of the respective partners supplemented each other to a fortunate extent. A highly industrialized Germany was able to supply all those industrial products which South-east Europe, agrarian for the most part, demanded. The war, however, by diverting Germany's industrial production from goods for civilian consumption to war material, threw this smoothly running exchange of goods right off the rails. For the farmers of South-east Europe did not want guns but agricultural machinery. Hitler's politics were the undoing of economics.

To-day likewise, every sensible economist realizes that it would be a proper development were the agrarian countries of South-east Europe to bring about an exchange of goods with the industrial West, especially with Germany, their nearest neighbour. Such a peaceable exchange of goods would settle the European industrial problems for a long period. The whole of the East, roughly speaking all the countries behind the Iron Curtain, were a set sphere of influence for West European, and especially German, industry. As consumers of West European industrial goods these countries would be able to foster the development of their civilization, even to-day, more speedily and successfully than by way of maintaining themselves in isolation behind the Iron Curtain. Here again we must state that the senselessness of politics and the stubborn-

ness of ideologies stand in the way of reasonable economic development.

After the second World War, when the necessity to strengthen industrial Europe fast became evident, a solution of the problem was sought through an attempt to regulate commercial exchange between individual European countries—by proclaiming the aim to harmonize the production of individual countries with that of each other, and thus create a division of labour up to a point. Useful and desirable as this aim is, and therefore deserving support, it can never bring about a solution of the problem.

Industrial competition may, of course, be somewhat mitigated by way of agreements between the countries of Europe, but the fact cannot thereby be eliminated, that Europe as a whole is incapable of feeding itself from its own resources. Europe as a whole—but by this I mean only Europe west of the Iron Curtain—must draw between a quarter and a third of the foodstuffs and raw materials it consumes from overseas to keep its industry going and its population fed. This problem cannot be solved by the countries of Europe themselves, or by any internal system of production and marketing. It is not the European market that Europe needs, but the world's market, for neither for its buying nor for its selling is Europe self-sufficient. Even if an understanding were possible affecting production and distribution between individual European countries, Europe by itself would not be self-sufficient.

For the same reason the repeated attempts to regulate payments inside Europe, by contractual arrangements based on existing currency conditions, must fail. The instability of European currencies is an expression

of the instability of European national economies. It can and will disappear only if these economies are stabilized through currency reform. To the economist it seems tragi-comic when he observes how all conferences and discussions about this subject inevitably result in an attempt to bridge the gap by means of countries with strong currencies granting credits to those with weak currencies, without considering whether or not this one-sided bridge built into the air will ever reach the further bank.

15. THE END OF COLONIAL POLICY

FROM the time of Adam to the middle of the nineteenth century no scientific developments ever had such great social and economic consequences as those which occurred in the last century. If it is correct to say that human problems have at all times been fraught with difficulties in exact proportion to given remedies, then it is clear that the development of science irrespective of its growth, did not facilitate these problems. Perhaps the complications of science even increase the difficulties of finding solutions. In any case man's struggle with science cannot be arrested. It is impossible to put the hands of the clock back to more comfortable times, i.e. to the past, as we tend to see it.

It has been the fate of the white race in this permanent stream of development to be the breakers rolling forth, while behind them people splashed in the placid waters—people who remained backward in technique and civilization. It is therefore inevitable that the white race, now and in the future, must lead the way to scientific civilization. This is no arrogance or privilege, but duty and historical fate.

This notion, fixed in the conscience of Europe and America, is accompanied by the further notion, that technical progress in the field of nutrition has fallen back in comparison with the satisfaction of man's other demands in the field of housing, clothing, transport, and spiritual requirements. All such goods as were not necessary for a purely animal existence, in other words spiritual and material luxuries, have always been pro-

duced in large quantities. Securing them never led to serious conflicts, and never became a problem. Problems always arose in the field of nutrition only. Spiritual hunger can always be appeased from available spiritual sources, but physical hunger requires appeasement by goods not available at will. Where the securing of food, as well as large quantities of raw materials, is concerned, we are tied to the soil, and that soil cannot be enlarged and transported, as can the thihgs created by scientific technique. The soil is immovable. If we were able to get our food and raw materials from air and water, both everywhere available in any quantity desired, then our problems of to-day would not exist. The earth, however, grants food and raw materials only where man can find and extract them. Man therefore needs space.

In past centuries the white race exploited its technical superiority in receiving by force the necessary space on earth, by conquest, subjugation and exploitation of the less developed peoples outside Europe. That is the essence of colonial politics. For decades and centuries they contributed to the enrichment of those European nations which carried out such policy through their superiority in the arts of war. This colonial policy has rightly fallen into disrepute to-day.

Let us not deceive ourselves in believing that this was the result of moral insight or Christian love of one's neighbour. These arguments, though they have found protagonists at all times, gained practical importance only after it had been found impossible to continue the old colonial policy further.

It was the two World Wars which roused the backward colonial peoples. It is true that the French in

1870 and 1871 had already brought coloured troops from North Africa into the war, but only during the World War of 1914–18 did the Allied Powers and their associates employ coloured troops to any large extent, drawn from their colonial territories. When those soldiers who fought in the first World War—Sikhs, Gurkhas, Senegalese, North Africans and Asiatics—returned home, they had learned two things: on the one hand, they were in many respects equal to the white men, and on the other, that the white peoples killed each other in internecine strife in just the same way as they had killed off the coloured peoples in their colonies. They then learned from the Peace Treaty of Versailles that it was permissible to take away the vanquished Germans' private property, and they could not conceive why the same should not be permitted to the colonial peoples in their relations with the British. They learned that Christianity afforded as little protection from murder and abomination as their own religions.

The revolutionizing of the Asiatic peoples, whose revolt we see approaching us to-day, has its origin in that first suicidal war of the European world. The extra-territorial settlements and protectorates of the Western Powers in China have disappeared, the Indian Empire has transformed itself into a dominion —a voluntary one—and the French and Dutch colonial governments in South-east Asia have had to give way to the native states claiming their independence. All these movements proved strong enough to resist even the technical superiority of Europeans in war.

But to be fair, one must once more credit the people of the United States with trying to avoid the mistakes of the old colonial policy. The United States were also

confronted with tasks of colonial policy in Central America and the Pacific. The requirements of modern technique make it perforce inevitable that one must fall back on the treasures of nature in areas outside those inhabited by the white race. But the Americans left such territories as were under their trusteeship, with their political and social independence as far as possible, right from the beginning, and as time went on to an increasing degree. It is open to judgment whether this was done from considerations of wisdom or humanity. But in any case it is a fact that all the leading brains are in agreement to-day with the Americans, sharing alike the conviction that the old colonial policy is a thing of the past.

When in 1926 I emphasized the argument, before the German Colonial Society in Berlin-Charlottenburg, that Germany's colonial problem should not be an imperialistic one, and that it had taken on a new shape for the whole world ever since the coloured peoples had been dragged into European conflicts, I still met with opposition from colonial enthusiasts of the traditional school. Since then, however, the consequences of the second World War for the coloured world have influenced views to a considerable extent. The old methods of political power have to make place for modern concepts of economic reasoning and moral obligation. National, social and economic needs exist not only for ourselves but for the undeveloped peoples as well. They too can be met only by international co-operation, and by increasing production and welfare.

In this connection material welfare is at least as important, and perhaps even more so at the start, than spiritual education. The latter can even be a gift of

doubtful value without the former. American and British educational efforts from the start of the present century in China and India developed by no means insignificant numbers of citizens into educated men of knowledge. Not all of them, however, could find adequate employment at home, and they formed an intellectual proletariat, feeling the contrast all the more sharply between European welfare with education, and native education without welfare. Communist propaganda, fed from purely spiritual forces, would never have found such a fertile field in Asia, if European influence had insisted more on an increase in material welfare in these countries. *Primo vivere deinde philosophari.* Hungry proletarians cannot be expected to have high moral concepts. It is easier to influence the spiritual and moral attitude of a well-fed people than a hungry one.

It is for this reason that the chances for a lasting success of the Bolshevist doctrine with the Asiatic peoples must not be rated too high. The Communist economic régime can never bring these peoples such economic prosperity as they long for. The World Wars proved the Imperialistic way of reasoning to be wrong. The misery in Russia has proved the Communist reasoning to be wrong. Only the democratic-individualistic concept of economics shows a prospect of being able to bring welfare to undeveloped countries and peoples, if it is inspired by a sense of moral responsibility. Our task does not lie in the domination and exploitation of undeveloped countries, but in the struggle against the poverty of their inhabitants, and for the protection of their national and cultural life. Imperialistic colonial policy no longer has any value,

but economic help and respect for the particular character which has developed on each individual people's soil.

It is only within this framework that the opening up of new sources of raw materials and new markets should be achieved. In this process, America, strong in capital and industry, and having achieved the highest technical level, has, of course, a great lead. This is most clearly seen in the field of petroleum. Hardly is a new discovery made before new capital and enterprise is attracted from the United States. Narrow-minded people like to talk about the battle for raw materials, and are afraid of being left behind where their interests are concerned, when American capital comes to the fore. That is the very same spirit which brought us, and will bring us again, under the curse of economic fear and envy, into foreign conflicts, unless we banish it. I do not believe that such feelings are justified. The purport of economics is not only to produce but to trade also. Trading can only be done with a potential buyer, that is, with someone who can offer goods or services in exchange. Consequently, the science of economics carries within itself the ability to correct its own blunders, and is thus distinguished from politics. That is why economics has to provide for trading partners who can all produce and prosper. The present-day American predominance in the world's markets is no more a danger than was the Spanish or British predominance in the past. It is not capital that directs the course of history, but man.

16. POINT FOUR OF THE TRUMAN PLAN

It was the realization that all palliatives were insufficient to overcome the world's economic crisis that inspired the President of the United States to submit the now famous Point Four of his programme for recovery, which tackles the problem in principle. The idea of assisting under-developed countries towards a faster, more extended development of their standards of living by way of financial and technical help is, as we have seen, nothing new. Not that this matters. Ideas are cheap and plentiful, and they crop up in the oddest places. What is always and everywhere decisive is the transformation of ideas into action. That alone matters. If President Truman can do this, then his merit will be ten times greater than that of any ideologist.

On 11th July, 1949, President Truman said in his report to Congress in Washington: "In addition to maintaining our foreign-assistance programme, and restoring a full-scale Reciprocal Trade Agreements Act, I urge Congress to enact the legislation I have recently recommended, to expand both technical and capital assistance for the economic growth of under-developed areas.

"The expansion of foreign investment, by making more dollars available directly to the under-developed countries and indirectly to the capital goods-exporting countries of Europe, will improve the rest of the world's ability to buy from us."

President Truman expects the same results from the

technical assistance of America. He proposes to entrust the Export-Import Bank with the task of promoting this policy in practice.

For some time past American journals have published more and more articles judiciously expounding the expansion of world trade by way of furthering scientific developments, as is possible only where such developments have not yet taken place. The higher the technical development of a country, the greater its demand for all imaginable consumer goods previously unknown to it. A merely agrarian country, or one producing only raw materials, is an inferior buyer, while a high degree of technical organization gives rise to a large consumption. Purchasing power grows in step with the development of technique. Consequently it is not the distribution of the existing demand between the competing industrial countries which is under discussion, but the expansion of demand to such a degree as can provide work for all.

Pessimists will object that such a development cannot be continued over an unlimited period. That may be so, although it cannot be proved any more than the contrary. But shall we give in because of that? Do these pessimists feel called upon to forecast conditions in the next few centuries? The earth, even in our present state of technical proficiency, still has enough room for many times its present population. What may science still be able to produce? We want to tackle what lies before us, and leave our sorrows for the future to Providence.

President Truman has started to give effect to his Point Four. The "What to do?" has been answered; and now the "How to do it?" must be dealt with. For

the preliminary work of the first year 50,000,000 dollars were set aside. But it is not the amount involved which is important; that is but modest in comparison with the huge sums of the Marshall Plan. What is important is the question of what the European countries can in their turn contribute towards the planning and preparatory work. Concerning this not much has yet been publicly announced, and I am afraid that it appears that European economists have not realized as yet the extraordinary possibilities of Point Four. It looks indeed as though they were still clinging to their traditional views on commercial and colonial politics.

Yet, here and there a change is beginning to show. When, in 1930, I urged that foreign credits should not be given to Germany but to industrially undeveloped countries, so as to enable them to buy capital goods in Germany and other countries, I was ridiculed by M. Tardieu in the French Parliament. Now M. Queuille is the first, and, I believe, so far the only statesman to adopt a positive attitude to the Truman Plan, by proposing the economic unification of all colonial territories in Central Africa, and their common development. No one can under-estimate the importance of this suggestion for the employment of European industry. Germans would be well advised to submit suggestions in their turn for the realization of Point Four.

Such suggestions can have two objects. One must distinguish, in deciding how assistance can be granted, between the under-developed countries which already have some form of national government and living culture, and those territories which are sparsely in-

habited and remain on the lowest level of civilization. For the purpose of the considerations which follow we shall distinguish them by the adjectives "settled" and "empty". In both kinds of countries technical development would be achieved, but in the settled countries, embracing all Eastern, Southern, and Western Asia, for example, we shall have to co-operate with the existing governments, while in the empty lands initiative must come from outside.

In such countries as China, India or Persia, there are everywhere the beginnings of modern technique, while the empty territories of Africa are often found still in their primitive state. Everywhere in the settled countries there is agriculture, but in the empty countries even this must often be developed first. The settled countries offer no space for large-scale immigration, the empty ones offer no obstacle in that respect. The settled countries are tolerable in their climatic and hygienic conditions, even for Western Europeans. In the empty countries tolerable conditions must often first be created. Thus the task of technical development is easier in the settled countries and more difficult in the empty ones.

All these differences will influence the various ways in which assistance can be given. In the settled countries negotiations with their governments will be necessary regarding the tasks to be tackled, and their own wishes must be taken into consideration. This will require preliminary enlightenment, teaching and conviction, which in their turn require a considerable apparatus for instruction and propaganda. But in the empty countries one can start at once. The kind of work which must be done there is dictated by the

nature and structure of the country itself, and the industrial powers will easily agree about that.

In the settled countries difficulties will start with the distribution of the work among individual industrial nations. When I discussed with an American acquaintance the necessity for entrusting Germany with such work, he asked what kind of work I had in mind. I said that I would give him a few examples to make clear my ideas, but that I already knew that he would rule them out as not to be entrusted to Germany. And I added that I myself was of his opinion. But I did mention, for example, the electrification of India, the control of the Hoangho, the irrigation of Persia. His answer was prompt. "But all that we want to do ourselves." This I had anticipated, of course, and I relate the incident here only to make clear that such work cannot be undertaken without some restraint on one's egoism.

In other words, the industrial nations would have to carry out such work in common, or split it between themselves geographically or by quotas. It is understandable that in the course of negotiations many economic, and possibly political, interests must be balanced one against the other. It is hardly far-fetched to expect that Germany, under the quadripartite tutelage, will play Cinderella in the process. In view of the nature of these tasks, Germany can only hope to beg for her share; she cannot expect much consideration of her specific industrial character. It would be different if so many tasks had to be performed inside the settled countries, that one or other could be handed over to Germany as a special task, without acting to the detriment of competing nations.

Things are very different in the empty countries. There the number of tasks waiting to be performed is well-nigh unlimited, and it would be easy to give Germany a special task in the development of one of them. In doing so the main thing would be to find a task sufficiently great to occupy a considerable part of German industry, and thus divert such German products from the world's markets. German industrial activity of that nature would have to refrain from all colonial-imperialist ideas. It could best be subjected to the permanent control of U.N.O.

The development of such an empty country must be directed above all towards the production of foodstuffs. That is the nearest and easiest goal to attain, and it would bring about a considerable alleviation of the Marshall Plan.

I have purposely not enumerated here such empty countries as might be considered for tasks of this kind. There is a whole range of tasks to be wrought in them, but there is little use in making a theoretical survey. When a decision in principle is reached, then we shall soon discover which practical proposition is the most suitable. In any case we shall have to consider the interests of other nations; or, in other words, Germany will be entrusted with the most difficult task and must reckon with that. But precisely in this way will she be able to prove that she aims at nothing other than peaceful reconstruction.

That which not only concerns Germany, but alone ensures the recovery of economics in general and everywhere, is the possibility of economic initiative developing freely on the part of the individual and of individual countries. Nothing useful can be attained

by bureaucratic planning, and no development of creative ideas or the struggle for success can thus be brought to fruition. To-day both are needed more than ever before. All planning, all control, should confine itself to protecting the peaceable interests of third parties.

17. THE OUTLOOK

GERMANY'S situation, even from the international point of view, can hardly be viewed too seriously. Certainly a German Government could make some improvements here and there, but the destruction which Germany has suffered is too great to be repaired with such of her own forces as are still available. The problem of the millions of refugees expelled from the East is a fearful one, and even more fearful in its moral than in its material results. The misery of the housing shortage for more than ten million people destroys the very foundations of culture and education. The feeding of these people, thanks to American assistance is still assured, but the end of this assistance is in sight. In any case, no people can live permanently on alms without being demoralized. What social revolutions may be expected then from a people, well-intentioned and orderly in principle, can hardly be imagined with all their consequences.

Fortunately we see to-day a number of leading foreign politicians with an open mind to this problem. This is proved by the discussions regarding the origins of the "unconditional surrender" clause. If Germany were not the party which has suffered to such a degree, then she could smile at the strangely ambitious attempt of four nations, out of harmony with each other, to rule over seventy million people from outside. When a very intelligent British colonel asked me in an internment camp, in the summer of 1945, what success I had expected from the belated attempt upon Hitler's life

on 20th July, 1944, I replied "We should have preserved a German Government." What I wanted to express was the fact that German responsibility would have survived and been available for the task of leading the German people out of the disaster into which it had been plunged. To-day this responsibility lies with the Occupation Powers. They took it over of their own free will, and now they are feeling its weight.

This responsibility is not discharged by the methods in use to-day for the control of daily events. It is not achieved by military police decrees, J.E.I.A., de-Nazification courts, etc. Neither is it settled by gifts and charity, collections and food-parcels. Germany cannot go on living in a poor-house. Anyone who has a trace of honour left, will wish to earn, and not to beg, his living. We need and we want work.

This treatise is inspired by the conviction that the task is so colossal that it can be accomplished only by very far-reaching means. The jog-trot from year to year, as it goes on at present, is so dangerous because it deludes us as to the chances of success. While believing that they are doing something effective, people do not realize that all that they create is melting away in their hands. For such a task (momentous and uncommon as it is in all its dimensions) can only be accomplished by uncommon means and with far-reaching vision.

Even so I have tried to submit suggestions wholly confined to the framework of what is foreseeable and manageable. I have tried to be fair, not only to the German, but also to the international point of view. As I reason on economic lines, my arguments are far removed from narrow-minded nationalism. Nor do the

suggestions made in this treatise call for the immediate raising of large sums for some incalculable risk. They can be embarked upon initially in a very limited way so that they can be extended as and when success comes within sight.

Finally, these suggestions may be refuted; but if so let them succeed in making us realize that a great and exceptional end needs great and exceptional means, and that others must find such means if they reject those which have been elaborated here.